

**Gordon Institute  
of Business Science**  
University of Pretoria

Understanding international consumers' behaviour towards  
disintermediation in the luxury hotel market.

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## **Abstract**

Disintermediation presents an enormous opportunity for suppliers looking to increase profit margins and reduce their reliance on third parties. Situated in the context of the luxury hospitality industry of South Africa, this study aimed to determine if the psychological constructs of information risk, loss aversion, destination naiveté and transaction cost influence consumer choice of purchase channel.

A quantitative methodology was applied to the study allowing for correlation analysis to assess the strength of the relationships between the psychological constructs and purchase channels. The findings suggest that the psychological constructs of loss aversion and to a lesser extent destination naiveté have an influence on purchase channel choice whilst contrary to current literature the construct of transaction cost has no influence on high-involvement non-frequently purchased experiential products such as luxury travel. Consumer's age was also shown to influence information sources utilised in the purchase process.

The study contributes to both literature and practice in terms of the new context of South Africa, the potential marketing strategies to increase direct bookings and improved organisational understanding of the scale of disintermediation amongst the affluent consumer segment.

**Keywords: Disintermediation, consumer behaviour, destination naiveté, purchase channel, loss aversion, transaction cost**

## Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Signed:

Name: Gareth Greensill

Date: 7 November 2016

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## List of Acronyms

CRS – Computer Reservations Systems

DMO – Destination Marketing Organisation

GDS – Global Distribution Systems

GNE – Global New Entrants

OTA – Online Travel Agent

## Chapter 1: Introduction to research problem

### 1.1 Introduction

A significant number of consumers in the luxury travel industry, most notably overseas visitors, make use of travel intermediaries when booking holidays. This phenomenon still occurs despite the rapid advancement of digital technologies where a wealth of information is now freely available for consumers to make informed choices on their own. In order to improve profitability suppliers (in this case the actual hotel or lodge offering a luxury product) could better exploit this direct channel to the consumer by means of disintermediation where an intermediary is either partially or completely replaced (Kracht & Wang, 2010, p. 736). Disintermediation within the travel distribution chain allows suppliers the opportunity to reduce their transaction costs by minimising commission payments (Chakravarthi & Gopal, 2012).

However, it is important to note that the structure of the tourism industry takes the form of a complex global network comprising numerous intricate relationships that need to be carefully managed. In the constant struggle to prosper, participants at various levels continue to compete, merge, form partnerships and change relationships on a regular basis (Kracht & Wang, 2010). Both providers and client agencies have become acutely aware of the importance of perceived relationship value (Moliner-Velazquez, Fuentes-Blasco, & Gil-Saura, 2014). There is the perception that a large segment of the target population still has the desire for social interactions and value high service levels provided by face-to-face interaction. Complete disintermediation, while possible in theory, may therefore not be the answer to improved profitability and overall sustainability for the supplier in the luxury travel segment. Understanding how affluent consumers currently utilise and value intermediaries and why they still rely so heavily on them when purchasing a luxury travel product could provide insight into the ultimate scale of disintermediation. No matter how much suppliers or intermediaries alter the current environment, it is ultimately the values, views and demands of consumers that will dictate the scale of disintermediation (Law, Leung, Lo, Leung, Hoc & Fong, 2015).

As a result, rather than the full scale disintermediation which was once predicted, accommodation providers are now actively engaging in reintermediation processes, forming new relationships with intermediaries who have embraced technology and are in

turn successfully providing value-added intermediation services to compliment the changing environment (Ford, Wang, & Vestal, 2012; Kracht & Wang, 2010). Reintermediation involves previously disintermediated middlemen offering a new value proposition to once again become part of the distribution channel (Viljoen & Roberts-Lombard, 2016).

It is clear that the value chain network will continue to evolve just as it has done for the last decade. As the needs and expectations of customers shift in response to the macroeconomic environment and technological advances, suppliers and intermediaries alike will need to adapt their sales mix and strategies to best exploit the opportunities available.

The emergence and subsequent adoption of internet technology has, and will continue to play a crucial role in both the planning and decision-making process of travellers in today's society (Kucukusta, Law, Besbes, & Legohérel, 2015). If suppliers are able to identify which specific market segments may want to utilise direct channels and their reasons for doing so, they could better understand the needs of consumers and adapt their product offering and marketing channels to their advantage. Reduced distribution costs and commission payments to intermediaries may seem attractive, but hotels and lodges need to ensure that they do not chase these short-term profits at the expense and value of long-term sustainability.

## **1.2 Business and theoretical need for study**

The global luxury hospitality market was worth approximately €150 billion in 2014, which indicated a significant increase of 9 percent from the previous year (D'Arpizio, Levato, Zito, & de Montgolfier 2014). The global travel industry continues to perform very well and in 2014 arrivals reached over 1,1 billion which showed an increase of 4,3 percent from 2013. Whilst forecasts predicted slightly slower growth in the region of 3.7 percent for the 2015 calendar year (Bremner, Popova, Rossini, & Geerts, 2015), the overall outlook for the industry appears bright. This positive trend has occurred despite uncertain economic growth across the globe, caused by an increase in geopolitical unrest, the increase in the US interest rate, the fluctuating oil price and the current Eurozone crisis (Bremner et al., 2015). The 2015 Virtuoso report that anticipates developments which could occur in the

luxury travel industry and casts light on the reasons behind decisions made by upscale travellers has identified South Africa as an appealing destination for affluent travellers searching for one-of-a-kind experiences. The country was rated 3rd on the list of top global destinations and 1st on the list of top adventure destinations for 2016.

Along with the positive industry outlook, technological advancements have significantly increased competition within the travel and tourism industry. Globalisation brought about through instant access to information and reduced barriers to entry has impacted the financial margins of all parties involved in the tourism value chain. As a result organisations still find themselves under immense pressure to find innovative and sustainable ways to improve profitability. Apart from improving profitability, suppliers also need to be concerned about the risks associated with using intermediaries to distribute their products. In the ongoing battle to secure bookings, suppliers agree to lucrative commission structures with intermediaries. As this is the primary source of revenue for intermediaries there is always the risk that business will be shifted to competitors should these intermediaries receive a higher incentive offer. This can essentially destroy a profitable lodge/hotel overnight if they are unable to find alternative booking streams. It is clear from these arrangements that the majority of power lies with intermediaries.

Consumer behaviour varies drastically across income classes and products and services purchased. Luxury purchases in the travel industry have a high cost and low frequency of purchase which cannot be assessed prior to consumption (Nicolau, 2013). This coupled with the fact that feelings towards experiential products such as those offered by luxury hotels and lodges are often intrinsic and unique to the individual, increases the complexity and risk in the decision making process (Nicolau, 2013). For this reason consumer views and purchase behaviour for luxury travel products may well be different to other traveller segments. The majority of studies conducted previously on disintermediation have focused on the entire distribution channel and described purchase behaviour through a holistic lens. Studies also largely focused on disintermediation from a supplier's perspective. Limited literature could be found that attempted to understand luxury sector disintermediation and purchase behaviour from a consumers' point of view.

This knowledge gap limits the supplier's ability to provide a bespoke experience and implement ideal practices to maximise the financial success of the organisation.

Understanding these unique values and consumer drivers will allow suppliers insight into potentially controllable factors that can then be focused on in isolation, to better manage and service specific target segments with a view to sustained profitability increases. If both suppliers and intermediaries are to remain competitive and achieve success, it is of utmost importance that they are aware of potential new opportunities within the tourism distribution channels (Fountoulaki, Jung, & Leue, 2015).

Further, the literature suggests that future research is required on different situational and demographic variables that impact consumer decision making and to understand the perceptions of consumers towards disintermediation and purchase choices (Grønflaten, 2009; Law et al., 2015). Furthermore no study has been conducted in a South African context to understand how purchase intentions are affected by this unique geographic region. With South Africa now being seen as such an attractive destination for affluent travellers (Virtuoso, 2015), this study may provide valuable insights to local suppliers in understanding consumer behaviour towards disintermediation.

### **1.3 Research objectives**

The objectives of this study are as follows:

- To identify psychological factors (information risk, loss aversion, destination naiveté and transaction cost) that influence consumer behaviour and contribute towards consumers using disintermediated channels to purchase luxury travel products in South Africa.
- To identify if purchase channel choices are influenced by the demographic profile of the consumer.

### **1.4 Research scope**

Scope refers to the specifications or limitations on the applicability or validity of a theory and its propositions as well as circumstances such as time, place and kind of subjects under which a theory's propositions hold true (Vogt & Johnso, 2011). The scope of the study focuses exclusively on disintermediation in the luxury hospitality industry in South Africa. It draws on and adds to existing literature on disintermediation and how this affects consumer behaviour in a luxury setting.

The research was conducted via a cross-sectional as opposed to longitudinal study. Due to the nature of the research and predicted enhancement of digital technologies in the foreseeable future the timeframe applicable to the research is limited. All questionnaires were completed during August 2016 and as such the results generated are specific to that particular point in time.

## **1.5 Conclusion**

The intensity of competition within the luxury hotel industry in South Africa is greater than ever before. Sales managers need to find unique and viable ways to remain profitable in an industry that is characterised by high capital costs and a high proportion of fixed to total costs. This task is not made any easier by the fact that hotels sell a finite resource that cannot be stored. As such, both occupancy and perhaps more importantly yield need to be continually maximised if long term prosperity is to be achieved. Disintermediation whilst a viable proposition to achieve this goal is not without its significant risks. Power asymmetries within the value chain network mean suppliers cannot simply eliminate intermediaries completely and hope to operate under the same conditions as before. A delicate balance influenced by a number of factors including hotel size, the number of products in its product portfolio and its brand image and reputation need to be taken into account when formulating a sales strategy. The current macroeconomic environment will also continue to play a crucial role in how suppliers chose to establish and manage distribution networks.

## Chapter 2: Literature Review

This chapter is dedicated to the study and review of relevant literature in the fields of disintermediation, travel distribution channels, luxury travel products, channel competition and conflict, the tourism industry, and consumer behaviour relating to the purchase of luxury travel products. The objective of this review is to describe and evaluate the relevant theoretical perspectives and previous research findings that contribute to the knowledge base on consumer purchase behaviour in the luxury travel industry.

### 2.1 What disintermediation is and how it has affected the travel industry

Disintermediation refers to the process whereby an intermediary or the function performed by an intermediary is either partially or completely replaced (Kracht & Wang, 2010). Disintermediation is essentially about eliminating the middleman or mediator from the supplier-intermediary-consumer network but is very often over-simplified in practice as making a choice between utilising the services of a travel agent or simply making use of the internet network to conclude a purchase (Grønflaten, 2009; Kaewkitipong, 2010). However, it must be noted that travel agents themselves run many of the web sites which market travel services and a number of business do not solely offer their travel services on the internet but make use of other channels as well. Whilst the current definitions of disintermediation differ slightly in wording and technical aspects, what is clear is that disintermediation allows suppliers the opportunity to market and sell their products directly to consumers without the involvement of third parties. This has been possible due to the emergence, application and continued enhancement of the internet and other technological products over the last two decades.

The advent of the internet brought about a way in which travel and hospitality suppliers could market their services directly in a cost effective manner. A direct channel made possible by technology has erased all geographical reach issues between suppliers and consumers (Thakran & Verma, 2013). The growing popularity of business applications utilising the internet has also increased the number of people who are able to use technology to search for information and make purchases online (Law et al., 2015).

Kucukusta et al., (2015) noted the following potential benefits consumers may experience utilising the internet to purchase travel related products:

- Significant information related to a specific tourism product can be gathered.
- Comparisons between similar products can be easily performed.
- Communication with the supplier can be easily maintained.
- Purchases can be made directly and efficiently.

The result of these benefits has increased the power of the consumer in the purchase transaction whilst negatively affecting the power of suppliers due to online pricing transparency, price competition and reduced consumer loyalty (Kucukusta et al., 2015; Wen, 2009).

Whilst the internet has given consumers the ability to purchase travel products directly from suppliers, it has by no means resulted in complete disintermediation in the industry. Studies have concluded that direct channels to the supplier through technological advances such as the internet cannot fully replace the traditional travel intermediary because of certain inherent limitations. On the internet, consumers are able to compare products and services but it takes time and demands effort to work through what is often complex information (Kracht & Wang, 2010). An irreversible and unique characteristic of traditional intermediary channels is the human face-to-face interaction which cannot be replicated through direct booking channels (Grønflaten, 2009). Finally there is a perception that consumers still find it hard to trust all information that appears on the internet (Yacouel & Fleischer, 2012). Whilst disintermediation has changed the purchasing landscape in the travel industry, there is clearly still a need for both traditional and online intermediaries.

## **2.2 Understanding the travel and tourism industry**

The travel industry is a competitive environment shaped by numerous external forces that either stimulate or subdue the demand for products and services being offered at any point in time. The nature and volatility of this environment places extreme pressure on suppliers to identify and maintain stable revenue streams by offering a superior value proposition designed to meet the needs and expectations of even the most discerning travellers. The



concept of tourism is best portrayed as individuals leaving their normal place of residence for short periods of time to indulge in pleasurable activities of a personal nature or for business purposes (Swarbrooke & Horner, 2007; Yu, Kim, Chen, & Zvi, 2012). The products offered in the hospitality industry consist of numerous components that appeal to both the extrinsic and intrinsic motivations of consumers. Apart from the physical components such as the room, décor, amenities and food, consumers are drawn towards, and place a significant amount of value on one-of-a-kind, unique experiences. Extrinsic benefits associated with the product offering include excellence, autonomy, self-expression and uniqueness, using personal inherent capabilities, enjoyment and self-confidence (Terblanche, 2015).

The heterogeneity, intangibility and perishability of travel products contribute to both the uniqueness and complexity of the industry, the value of which is determined by personal subjective tastes (Berthon, Pitt, Parent, & Berthon, 2009; Wen, 2009). Hedonic products such as those offered in the luxury travel industry are best described as products and services that provide pleasure and emotional value through experiences created. These emotions are often very subjective and driven by consumer involvement and personal tastes (Dhar & Wertenbroch, 2000; Sharifpour, Walters, Ritchie, & Winter, 2013). As a result, suppliers in the industry, and particularly those offering luxury products, need to not only promote and constantly enhance their physical offerings, but also provide an overall experience that appeals to their specific target market.

Technology has induced structural changes which have resulted in the fact that consumers have more choices available to them, but as a result a fiercer competitive environment for all channel participants has developed. (Kracht & Wang, 2010). If tourism professionals are to achieve success and remain competitive it is imperative that they are aware of and are able to identify all new opportunities which may arise (Fountoulaki et al., 2015). Opportunities that provide an area of competitive advantage are not always easy to spot and are usually only derived through an in-depth understanding of the consumers and their unique motivations and desires. By better understanding visitor behaviour, suppliers will generate valuable knowledge enabling them to offer consumers a better service and distribute their products in a more effective manner in an increasingly competitive marketplace (Pearce & Schott, 2005).

## 2.3 Major functions performed by distribution partners

The primary purpose of a distribution channel partner is to add meaningful value to a product or service as well as bridge the gap between the producer of the product and its users. While technological advancements have created an opportunity for channel members to be removed the functions these intermediaries have historically performed cannot be eliminated (Kotler & Armstrong, 2010; Pearce, 2008). A host of both direct and indirect activities assist a hotel in concluding a sale. The most vital elements performed during the distribution of a service such as a hotel booking are described below:

- **Information:** Information availability has a significant impact on various aspects of the traveller's decision making process, especially when deciding on a destination choice (Xiang, Magnini, & Fesenmaier, 2015). The primary distribution function for tourism is information. Gathering market intelligence and distributing relevant information to a supplier's target market can be a challenging exercise that requires a very specific skillset. This task also increases in complexity when the supplier looks to target prospective buyers in international markets. Without adequate information consumers are unable to plan, evaluate and conclude purchases with any comfort which stifles demand and impacts profitability (Pearce, 2008).
- **Promotion:** Not only does information need to be available but it needs to be favourable and enhance the organisation's product or destination image (Wen, 2009). Useful and favourable information creates awareness and stimulates interest through persuasive communication which ultimately culminates in increased sales (Sharifpour et al., 2013). Perceptions play an important role in purchase decisions, especially in the case of services where the intangibility of the item means it cannot be inspected prior to a sale taking place. Intermediaries have historically performed an important role by maintaining an organisation's brand image and popularity (Kotler & Armstrong, 2010).
- **Contact:** Before any purchase can take place the supplier needs to find a way of identifying and communicating its product to prospective buyers. This can prove very challenging given the geographic dispersion of potential consumers. Many intermediaries have spent years building up large databases and contact lists on which

they rely to promote a supplier's offering. This is seen as an important differentiator and an area of competitive advantage for intermediaries (Kotler & Armstrong, 2010).

- **Matching:** Customising an offer to meet the buyer's needs is a complex process, particularly in the hospitality industry which often requires a number of unique and highly differentiated elements to be bundled together to form a complete travel experience (Pearce, 2008). The complexity of this task has increased dramatically in recent years with consumers now being better informed and as a result they have become more demanding (Martins, Salazar, & Inversini, 2015; Tan & Dwyer, 2014). For distributors being able to quickly identify consumers' needs and provide them with a personalised product that satisfies all their desires and wishes, is crucial to concluding a sale (Chakravarthi & Gopal, 2012).
- **Negotiation:** Greater volumes of publically available information have forced suppliers to increase their transparency around product features and pricing. It has also placed them at a disadvantage when trying to negotiate with consumers who are able to negotiate improved rates using comparative quotes. As new suppliers enter the industry and increase its competitiveness, suppliers rely on intermediaries who are able to negotiate and achieve attractive rates with consumers (Law et al., 2015)

To achieve increased levels of disintermediation, suppliers need to ensure they are able to perform or consolidate crucial functions vital to the distribution process. A distribution channel is only as strong as its weakest link. Failure to perform the fundamental functions described above places a supplier at a distinct disadvantage in a market more competitive than ever before.

## 2.4 The evolution of distribution channels within the travel industry

The choice of how and where travellers search for information and book accommodation varies considerably based on a variety of situational, personal, and product related factors. A tourism distribution channel comprises intermediaries or middlemen who ensure the sale and delivery of all services associated with a tourism product are facilitated in a professional manner (Buhalis & Laws, 2001). Whilst the internet has allowed disintermediation to take place, it has also increased the complexity of the tourism

distribution system. Along with traditional intermediaries such as travel agents and tour operators a number of other distribution channels now exist. According to the Tourism Distribution Channels model (Kracht & Wang, 2010), the current makeup of the travel distribution system consists of transactional and non-transactional partners described in table 1 below.

**Table 1: Partners who make up the tourism distribution network**

<b>Transactional</b>	<b>Non-Transactional</b>
<b>Traditional Corporate &amp; retail agents</b>	<b>Destination marketing organisations (DMO'S)</b>
<b>Online travel agents (OTA)</b>	<b>Web browsers</b>
<b>Incoming travel agents</b>	<b>Other search engines</b>
<b>Tour operators</b>	<b>Meta search engines</b>
<b>Global Distribution services (GDS)</b>	
<b>Suppliers</b>	

Each of the above-mentioned transactional distribution channels have been grouped and are described below. Destination marketing organisations or DMO's are also not classified as a transactional purchase channel that can be used by consumers. Instead they play an important role in promoting a region or town with the intention of increasing tourism activity in the area.

**1. Traditional corporate and retail travel agents (Also known as travel management companies).**

A traditional travel agent can be described as an intermediary who offers travel and tourism related services to consumers on behalf of the supplier, but does not use an online platform to conclude transactions. As such their duties essentially encompass those of an agent. One unique characteristic of traditional intermediaries that offers an area of competitive advantage involves the human interaction that is able to take place between the consumer and product provider. Grønflaten (2009) established that certain consumer groups still prefer to use this distribution method under the following conditions:

- If the consumer is a first-time visitor to a destination
- If the consumer is staying with friends or family
- If the consumer is on an organised tour and/or travelling in a non-family group.

Whilst there is still a market for traditional travel agents, the sustainability of these intermediaries remains in question. In order to survive, travel agents need to change their marketing strategies to remain relevant to their consumer base in the face of rising competition (Viljoen & Roberts-Lombard, 2016). It is a recommendation that traditional travel agents should focus their attention on providing service of a high quality in order to attract consumers to once again make use of their services.

## **2. Online travel agents (Including booking websites)**

An online travel agent can be described as an organisation that offers travel and tourism related services to consumers on behalf of the supplier through an online platform (Lee, Guillet, & Law, 2013). The emergence of online travel agents (OTA's) has coincided with the adoption of the internet as the primary information source for travel planning and product purchases. OTA's play an important role in building hotel reputation and as they dominate the online information space, they encourage hoteliers to put effort into service quality (Xiang et al., 2015; Yacouel & Fleischer, 2012). Currently the cost of searching and matching various hotels is low and it is easy and very inexpensive for consumers to check the attributes of hotels online and then make a booking directly through the hotels web site or via an OTA (Yacouel & Fleischer, 2012).

It appears that online travel agents do not follow a traditional agent-principle relationship and their function is that of an intermediary as well as a business partner or vendor (Lee et al., 2013). Many traditional travel agents have also expanded their operations to include online channels. There is also a grey area that has developed between travel agents and tour operators and the products each intermediary offers. Travel agents have in recent years tried to disintermediate tour operators by selling packaged products directly to consumers (Buhalis & Law, 2008). Travel agents, both traditional and online provide distinct benefits to consumers in the purchasing process. Consumers predominantly use travel agents to assist them with their travel arrangements because of the financial support and expertise benefits offered (Terblanche, 2015). It is evident that online travel agents now play a major role in the travel distribution network.

### **3. Incoming travel agents**

Incoming travel agents create a further level of complexity by acting as middlemen between the intermediary who concluded the purchase and the actual supplier. Incoming travel agents primarily deal with tour operators who create unique packages that are then sold on to consumers. Incoming travel agents handle all aspects of the trip in locations where the tour operator does not have a physical presence (Kracht & Wang, 2010).

### **4. Tour Operators.**

A tour operator or wholesaler specifically refers to a middleman who constructs tour packages or trips and/or sells these packages through travel agencies or directly to the traveller (Bennett, Jooste, & Strydom, 2005). The major difference between tour operators and travel agents is that tour operators perform an aggregating function, where travel services are consolidated into packages. As such tour operators are often seen as the wholesaler whilst travel agencies perform the retailing function (Song, Liu, & Chen, 2013). Tour operators have also leveraged off technological advancements by creating their own direct channel to the consumer in the form of websites from which sales are concluded. (Buhalis & Law, 2008). This has increased the competition between tour operators and travel agents as tour operators have now expanded to become retailers in their own right.

### **5. GDS (Global Distribution Services) & CRS (Computer Reservations Systems)**

GDS and CRS are types of electronic intermediaries. The GDS era, which originated in the 1960's, was the first major step in the development of digital distribution channels. GDS increased the reach of individual hotels and provided a boost to the global travel and tourism industry. The technology was first adopted in the airline industry. Since the adoption of the internet, the influence of GDS has decreased as suppliers now have a cheaper and more efficient way to distribute their products to consumers. Whilst consumers do not directly deal with GDS, they still form an important role in the distribution chain as tour operators and travel agents utilise the platforms extensively to source package components to meet specific consumer preferences (Thakran & Verma, 2013).

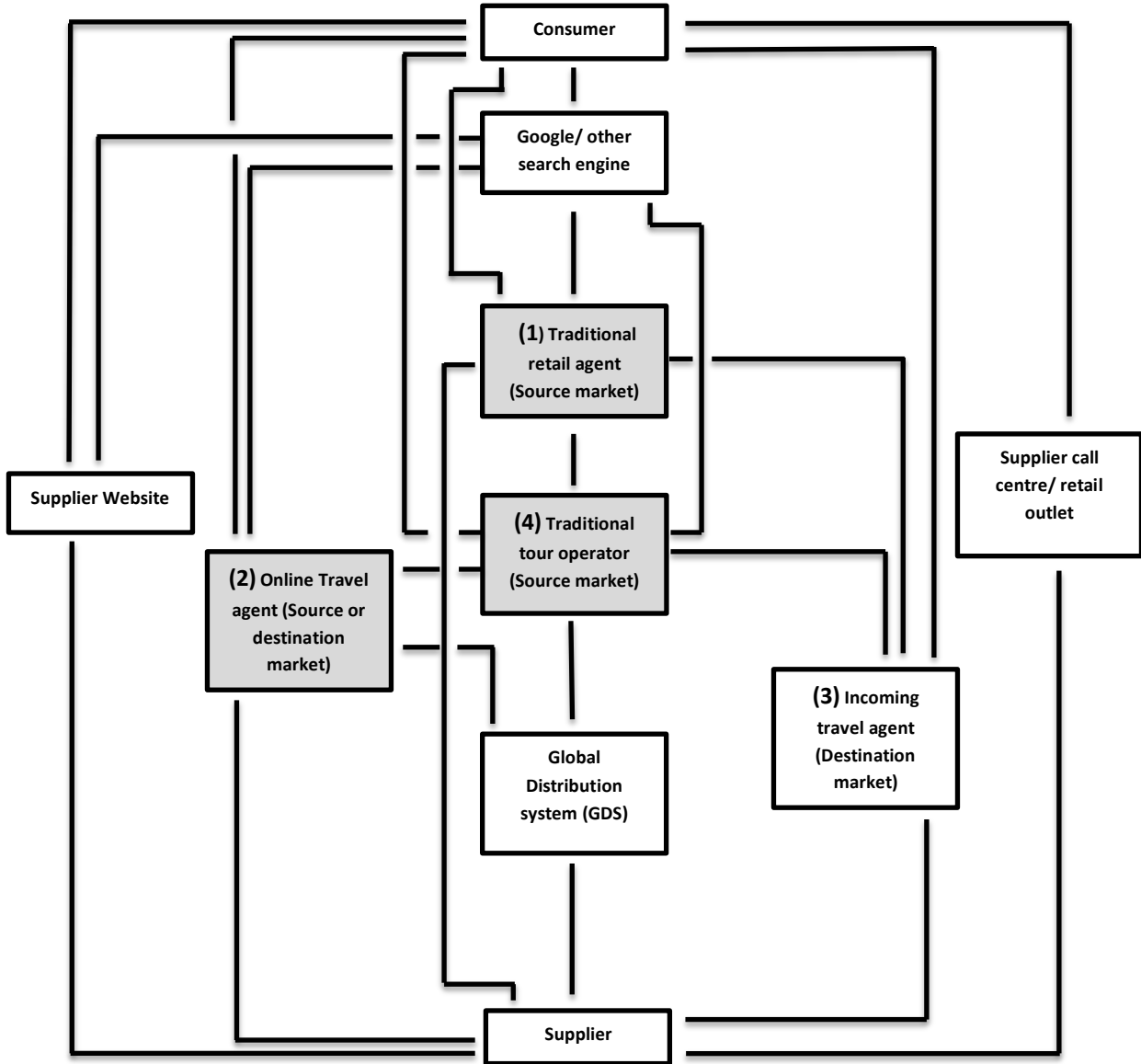
## 6. Direct bookings with suppliers

Direct bookings with suppliers involve complete disintermediation where the consumer transacts directly with the supplier when purchasing a travel product. For suppliers this is their preferred method of purchase as they are able to eliminate the commissions paid to intermediaries and thus increase profit margins by promoting their product directly to consumers in an online environment (Chakravarthi & Gopal, 2012; Fountoulaki et al., 2015).

From the above it is clear that as a result of the advance of information and communication technology there are no fewer intermediaries in the distribution channel, but instead an increasingly complex array of intermediaries has arisen (Kracht & Wang, 2010; Thakran & Verma, 2013). This has added not only to the complexity, but also to overall competition within the industry. In the tourism industry all the various distribution channels play a vital role. If such channels are to be used effectively, it is important that a solid understanding of how such channels have evolved and transformed is gained (Kracht & Wang, 2010).

Figure 1 provides a simplified graphical illustration of the distribution channel network incorporating all major intermediaries described above. Whilst structural changes and technological advancements have increased the choice offerings available to consumers, it has also created an environment defined by increased complexity and fiercer competition (Kracht & Wang, 2010). As illustrated, various channel partners now possess the skills and resources to bypass intermediaries at any stage of the purchase process. Traditional retail agents, tour operators and online travel agents are also able to, and readily perform, multiple functions in an effort to extract a larger portion of the total commission payable by suppliers to intermediary partners.

**Figure 1: Structure of tourism distribution channel network**



(Adapted from: (Kracht & Wang, 2010))



## 2.5 Managing distribution channel conflict and competition

Managing channel conflict and competition involves a delicate balancing act between maximising occupancies and optimising yields. Whilst higher yields achieved through direct bookings may seem attractive, suppliers need to think very carefully before eliminating intermediaries altogether. Many hotels still rely heavily on e-wholesalers and other channel partners to increase both sales and exposure (Myung, Li, & Bai, 2009).

Traditionally travel agents have played an important role in the hotel distribution process by acting as proxies and allowing travellers the opportunity to make connections with hotels that met their specific tastes and preferences (Lee et al., 2013). In order to improve their revenue, organisations involved in the distribution value chain cooperated with each other by carrying out complementary activities that were mutually beneficial (Guo & He, 2012). Each party specialised in a specific but fundamental element of the value chain, often limited to either the source or destination market. Suppliers targeting international customers also generally lacked the physical presence and market knowledge to actively promote their product to the degree that an established and trusted intermediary would be able to. In other words, cooperation with agents was often considered the most cost effective and efficient way for a hotel to extend its sales (Guo & He, 2012). Little conflict existed as each party understood and accepted its role in the value chain.

The resulting shifts in the business environment and subsequent changes in consumer behaviour have however impacted these once stable relationships. Increased industry competition brought about through better informed, more demanding, and increasingly price conscious consumers has meant hotels have found it increasingly difficult to achieve their revenue goals whilst maintaining strong channel relationships (Tan & Dwyer, 2014). Both suppliers and intermediaries now also have the opportunity to leverage technological advancements in an attempt to create strategic advantages and maximise profitability through both disintermediation and reintermediation strategies. This has brought into question the economic feasibility of certain channel members and has as such created instances where conflicts within distribution channels become inevitable.

Distribution channel conflict can be separated into two distinct categories, namely horizontal and vertical conflicts. Horizontal conflict occurs between channel partners that

perform the same or similar roles in the value chain (Tan & Dwyer, 2014). Examples include traditional and online travel agents who compete via different platforms for the same customer base. Major sources of horizontal conflict have arisen due to the following:

- Lower barriers to entry for distribution partners and reduced switching costs (Buhalis & Law, 2008). This has created a situation where a larger number of intermediaries compete to service the same customer base. With intermediaries growing at a faster rate than consumers, conflict arises where organisations battle to hold on to or grow current market shares.
- The convenience offered by OTA's (online travel agents). This has seen a shift in traditional booking methods, forcing both hotels and traditional travel agents to evolve if they hope to remain sustainable (Lee et al., 2013). Traditional services are now easily replicated in an on-line environment.
- Increased competition in the form of new hotels that supply a similar product offering as well as a shift in customer expectations of value and quality (Ku, Wu, & Lin, 2011). Increased supply reduces profit margins and as a result channel partners look at ways to eliminate certain intermediaries to maintain profitability.

Vertical channel conflict occurs between members of the distribution system who perform different functions or roles (Tan & Dwyer, 2014). Primary reasons for these conflicts can be attributed to the following:

- The extent of e-business adoption and interaction between parties in the value chain (Andreu, Aldas, Bigne, & Mattila, 2010). Technological advancements have resulted in both backward and forward integration opportunities. Intermediaries may no longer constitute a valuable or scarce resource that a supplier needs in order to deliver its product to a specific target market.
- Contract disputes arising from discrepancies in the bargaining power of both suppliers and intermediaries. Conflict areas include pricing agreements, commission structures, release periods, cancellation terms and payment periods (Ivanov, Stoilova, & Illum, 2015).
- Goal incompatibility which includes financial goals such as sales volume and commission structures mentioned above. Goals also refer to other important considerations, most notably those linked to an organisation's short or long-term

business focus (Myung et al., 2009; Webb, 2002). One channel participant's goal may be to maximise short term profits while another's is to slowly grow market share and awareness with a view to long term sustainability. In situations where goals are incompatible the likelihood of conflict is high.

Apart from the conflicts described above, channel conflicts can also arise as a result of power asymmetries within the value chain. As a result of power asymmetries within the tourism distribution network a partner who yields more power is often able to use this power to his advantage by threatening to withdraw from the relationship and make use of a different supplier and in this manner the weaker partner is forced to accept a lower value for a product or service. (Ford et al., 2012). This bargaining power can stem from various sources including access to customers, large sales volumes relative to seller's total sales, low switching costs, access to full market information and the ability to influence customers' purchasing decisions (Ivanov et al., 2015). The general perception is that intermediaries such as travel agents and tour operators have substantially more power than hotels in the relationship. Ivanov et al., (2015) unpacks this relationship by exploring the concept using French & Ravens Five Power Bases.

1. **Reward power** – Well established intermediaries have access to a large customer base and are able to facilitate the distribution of the supplier's product in the source market in a more cost effective manner than the hotel itself.
2. **Coercive power** – Established and trusted intermediaries promote the products of multiple suppliers and as such are able to direct potential customers to other accommodation establishments if contracts with those parties appear more attractive.
3. **Expert power** – Derived through source market and customer knowledge built up over an extended period of time.
4. **Referent power** – The hotels' desire to enhance their own reputation by being associated with specific intermediaries and leveraging off their already established brand image in the market.
5. **Legitimate power** – This form of power stems from the legal coverage guaranteed by locking suppliers into preferential contracts. This form of power is a by-product of the other four bases of power described above.

From the above it is clear that suppliers, whilst acknowledging the important role an intermediary can play, often feel forced into situations where disintermediation is seen as the only viable alternative. Perceived levels of unfairness and exploitation undermine relationships. At the same time hotels also need to be very careful how they manage relationships when they hold a significant portion of the power. Increasing yields at the expense of distribution partners can lead to the loss of key accounts and substantial revenue streams. As a result, hotels have resorted to protecting their current intermediaries through rate structures and guarantees even though this leads to a lower yield.

Channel conflict is also not limited to external relationships. Often companies open new sales channels in an attempt to acquire new markets and customers. This can result in channel conflict as the same product is sold through a number of sales channels where the pricing differs (Tan & Dwyer, 2014). Should this become public knowledge suppliers risk incurring significant reputational damage which can adversely affect their profitability and long term sustainability.

What has been established is that travel agents remain an important part of the marketing mix for hotels (Ku et al., 2011). Understanding how relationships become strained is a critical component in developing mechanisms to preserve distribution channel relationships (Samaha, Palmatier, & Dant, 2011) Current studies have noted that suppliers still perceive intermediaries as important partners, helping them sell their inventories in the most efficient manner whilst providing increased exposure for future bookings (Myung et al., 2009). From the perspective of buyer-supplier relationships hotels are continually looking for ways in which long term relationships can be developed and their revenue increased as a result of collaboration with travel agencies and contract companies (Ku et al., 2011). Whilst suppliers are now able to bypass intermediaries and avoid value chain conflict, this may not necessarily be beneficial to them in the long-run. Suppliers instead need to ensure they align their organisation with their environment and arrange the necessary resources to support that environment be it internally or through an intermediary.

As a final thought it needs to be noted that conflicts within the distribution chain are often context driven and company specific (Ivanov et al., 2015). The size of a hotel, the number

of products in its portfolio and its brand image and reputation play a crucial role in how suppliers choose to establish and manage distribution networks. Dependency is a fundamental driver of power in channel relationship and arises when one channel member relies on another to achieve its goals (Myung et al., 2009). If each channel member performs its tasks with the intention of maintaining trust and strengthening the relationship, conflict is easily avoided. Whilst suppliers often rely on intermediaries they need to protect their own power to ensure they are not abused and forced into adopting a disintermediated model.

## **2.6 Defining and applying the concept of luxury to the travel industry**

Luxury as a concept is not easily defined. It describes services, products and lifestyles which are above average, but it means different things to different people and often depends on the mood and experience of the consumer (Wiedmann, Hennigs, & Siebels, 2009). Looking at luxury from a service perspective, concepts such as outstanding quality and unique experience are seen as important in today's society (Choo, Moon, Kim, & Yoon, 2012). Berthon et al., (2009) use words such as quality, high price and uniqueness to define luxury. Exclusivity and rarity are further examples of luxury characteristics (Pantzalis, 1995). Because the definition of luxury is so subjective a definition of the concept should follow an integrative understanding. The basis for the construct of luxury has been derived from previous findings where luxury was assessed through a social, individual and functional lens (Wiedmann et al., 2009). Important aspects, identified by consumers that contribute towards a product or service's luxury value perception include:

- Luxury has a certain differentiation quality and luxury items are only accessible to a few people. This emphasises the importance of uniqueness and exclusivity.
- The quality of the product or service offered is important. To be seen as a luxury in the travel industry all service offerings must be of outstanding quality and are expected to meet the best international standards.
- Luxury is always a little more expensive compared to normal standards. Whilst a product or service cannot be considered luxurious simply because of its price, the value created by luxury often means that price premiums exist for luxury goods and services. As such luxury products are not readily accessible to the mass consumer

market based on the financial outlay required to purchase the product (Wiedmann et al., 2009; Yacouel & Fleischer, 2012).

- Luxury products or services create a hedonic value derived from sensory pleasure, aesthetic beauty or the excitement that the experience provides to the consumer.

From the above, a luxury product in the travel industry has been defined as a unique and exclusive offering of outstanding quality that is not available to the mass consumer market due to the financial implications involved when purchasing the product. Conceptualising this definition into a uniform standard that can be applied objectively to hotels and lodges in South Africa is achieved by looking at the star rating of the hotel or lodge in question. The number of stars conveys information on the physical attributes of the hotel according to a set of standards (Yacouel & Fleischer, 2012, p. 225). There is also a positive correlation between a hotel or lodge's star rating and its purchase price. For the purposes of this research only hotels with a five star rating as stipulated by the Tourism Grading Council of South Africa have been considered as a luxury product.

The limited supply, exclusivity and uniqueness of luxury goods or services create an aspiration and desire for consumption in many individuals. For this reason luxury goods fall into a category that is very profitable and fast-growing, but they are not well understood and have not been thoroughly investigated (Berthon et al., 2009). Luxury tourism represents a special segment of the travel industry. Regardless of the economic situation of a country at any given moment, luxury tourism is an activity in constant demand by individual consumers with substantial material resources. The 2014 MasterCard affluent report noted that the days of opulent excess created through the purchase of luxury items is on the decline. Affluent individuals now seek and desire authentic experiences that can be personalised to their unique needs. Nowhere is this more prevalent than in luxury travel.

## **2.7 Insights on perceived consumer behaviour in the luxury travel industry**

Consumer behaviour is the study of factors that impact and influence why individuals select, purchase, utilise and dispose of products or services in the manner they do. It attempts to identify important trends and motivations that can then be translated to product and service offerings in order to meet the specific needs and desires of the consumer

(Solomon, Russell-Bennett, & Previte, 2013). As part of the purchase decision process, consumers actively seek out information that will assist and guide their choices. The advent of the internet has drastically improved buyers access to information. However, many consumers have a difficult time identifying reliable data they can use with confidence (Williams & Baláž, 2015; Yacouel & Fleischer, 2012). As such many consumers believe that using information straight from the internet carries a certain amount of risk regarding information validity and reliability (Williams & Baláž, 2015).

Risk and uncertainty are essentially about the limits of knowledge that are inherent in tourism due to the nature of the activity. Consumer decision-making is uncertain and risky as it involves choices that may or may not deliver on expected benefits (Quintal, Lee, & Soutar, 2010). Tourism by its intangible and experiential nature provides distinctive risks (Sirakaya & Woodside, 2005). As such the construct of risk relating to the information perceptions of consumers was assessed in this study to better understand its influence in the scale of disintermediation associated with a product purchase.

Given the financial outlay associated with services such as those offered in the luxury travel industry, consumer behaviour relating to loss aversion, caused by uncertainty affects how distribution channels are utilised by consumers to make purchase decisions. Loss aversion relates to an individual's inclination to strongly favour avoiding losses rather than acquiring gains. This psychological component is intimately linked to a consumer's internal point of reference, formulated through prior experiences and subjective perceptions, which ultimately form the basis of all purchase evaluation decisions (Nicolau, 2012). Previous research on the topic noted that up to three quarters of consumers behave in line with the loss aversion principle when making decisions on destination types; however, consumers buying a high-involvement non-frequently purchased hedonic product are less loss adverse when dealing with an intermediary as opposed to the supplier directly (Nicolau, 2012; Nicolau, 2013).

Whilst the construct of loss aversion has been tested it has not been assessed with regard to the purchase of luxury hotel products. In this case the financial outlay of the consumer would be significantly higher than normal and may as a result affect the consumers' purchase behaviour and purchase channel choices. Whilst the financial outlay may be higher, the resources possessed by affluent consumers may also impact their perceptions

and subsequent behaviour towards loss aversion. It is imperative that risk-perceptions associated with making a direct purchase are fully understood and appropriate risk-relievers implemented if suppliers wish to better exploit this lucrative direct channel (Lin, Jones, & Westwood, 2009). The construct of loss aversion was therefore assessed to add to existing literature by understanding its influence when purchasing a luxury hospitality product.

Consumer behaviour relating to the purchase of travel products through various distribution channels is also influenced by a consumer's actual and perceived knowledge of the destination being visited. A tourist's risk perceptions and purchase intentions are influenced by whether the destination has been visited previously and if a consumer possesses previous international travel experience. For this reason first-time visitors prefer to make use of face-to-face interaction rather than utilise the internet when concluding a purchase (Grønflaten, 2009; Sharifpour et al., 2013). Risk perceptions are also influenced by factors associated with a specific destination. Volatility arising in the form of political and social unrest, crime, unpredictable weather patterns and currency fluctuations are examples of destination specific concerns that add to the complexity of an international purchase (Fuchs & Reichel, 2011). The construct of destination naiveté was therefore tested as South Africa is a unique environment with atypical and distinct factors influencing risk perceptions and subsequent purchase channel behaviour.

Affluent consumers are seldom limited by financial constraints and as such may exhibit different behaviour characteristics during the purchase process than other more price conscious consumers. This may include the choice of distribution channel used to purchase a travel product. The concept of transaction costs i.e. the time it takes to acquire knowledge versus the benefit gained is an intriguing concept in the case of luxury consumers. Benefits gained can be viewed in the form of both information sourced and cost savings derived. Prior research conducted shows there is a clear trade-off between search cost savings and information accessibility when comparing offline and online trading (Punj, 2011; Yacouel & Fleischer, 2012). There are two distinct belief structures and motivations for using direct channels amongst higher-income consumers.

1. Certain consumers engage in online shopping as they believe that utilising this channel will result in valuable time savings.



2. Another group derives its motivation from the belief that utilising direct channels increases one's ability to source hard-to-find and exclusive products so desired by affluent consumers (Punj, 2011).

Both these constructs are applicable in the travel industry as booking products direct with the supplier saves time whilst exclusive and unique experiences not readily sold by intermediaries can be sourced through online sources. Neither belief structure seemed to focus on the money savings aspect of online shopping, possibly because they value their time and finding products that best match needs more than the savings that can be derived through online purchases. Hence, the difference between the two belief structures relates to whether they focus on the cost of search (i.e. time spent) or a benefit of search (i.e. product fit obtained). Further findings indicated that generational age, education, and extent of internet usage influence consumers' beliefs regarding cost, time and experiential trade-offs. As such the construct of transaction cost and its relationship with purchase channel choice was assessed from an affluent consumer's perspective.

The overwhelming success and widespread adoption of the internet has meant that online information searches and direct purchases involving luxury travel products are now concluded by all generations. Current literature nevertheless notes that online purchase behaviour is still moderated by specific demographic categories, most notably age, with younger individuals being far more likely to conclude an online purchase than older individuals who still favour more traditional booking methods (Kucukusta et al., 2015; Xiang et al., 2015). This increased engagement is predominantly influenced by superior digital knowledge skills which makes searching for and extracting relevant information much easier. It will be interesting to note how quickly this trend will change as older generations increase their exposure to, and become more familiar with online information sources. Age was therefore assessed as a moderator variable between the constructs of information risk and transaction cost as influencing factors in the channel utilised to conclude a luxury travel purchase.

## 2.8 Conclusion

Technological advancements have fundamentally altered the nature of the travel purchase landscape. With a wealth of freely accessible information, product knowledge is no longer restricted to traditional distribution experts and therefore consumers are able to transact directly with suppliers allowing for disintermediation (Chakravarthi & Gopal, 2012). The benefits of these direct relationships include reduced commission structures and greater independence for suppliers looking to reduce their reliance on powerful intermediaries. Whilst this may seem like an attractive opportunity, adopting a disintermediated strategy may not always be in a supplier's best interests.

Apart from simply concluding purchases, intermediaries perform a host of other important functions. These include communicating product offerings, maintaining or enhancing a supplier's brand image, distributing appropriate information through relevant channels and matching product offerings to the unique and often highly differentiated tastes of consumers (Kotler & Armstrong, 2010; Pearce, 2008; Sharifpour et al., 2013; Wen, 2009; Xiang, Magnini, et al., 2015).

Travel products are also by their very nature unpredictable as the product cannot be evaluated prior to purchase. This creates a number of distinct risk perceptions that in turn have an effect on the purchase channels consumers utilise to make a luxury hotel booking. Information risk, loss aversion, destination naiveté and transaction cost were identified as important psychological constructs that affect a consumer's purchase strategy (Kim, Xiang, & Fesenmaier, 2015; Nicolau, 2013; Punj, 2011; Sharifpour et al., 2013; Williams & Baláž, 2015).

The decision to adopt a disintermediated strategy is therefore not one that should be taken lightly as it incorporates a number of complex and important considerations. Only once suppliers truly understand how affluent consumers utilise and value intermediaries and why they still rely so heavily on them when purchasing a luxury travel product will they be able to determine the ultimate scale of disintermediation and adjust their marketing strategies to best exploit this lucrative direct market (Law et al., 2015).

## Chapter 3: Research Hypotheses

The literature shows that whilst the internet has allowed consumers the opportunity to purchase travel products directly from suppliers, there are a number of factors, driven by unique behaviour characteristics and perceptions that ultimately dictate the purchase channel a consumer decides to use when purchasing a luxury travel product. The aim of the research is to identify the psychological factors and demographic profiles that influence consumer behaviour that contribute towards consumers using disintermediated channels to purchase luxury travel products in South Africa. A number of hypotheses have been generated based on the key constructs identified.

### 3.1 Hypothesis one – Information risk

**Ho:** Consumers perceive that not all information found on the internet is valid and reliable, and using an intermediary in the travel purchasing process reduces the information risk associated with the transaction.

**H1:** Consumers perceive that all information found on the internet is valid and reliable, and using an intermediary in the travel purchasing process has no influence on the information risk associated with the transaction.

### 3.2 Hypothesis two – Loss aversion

**Ho:** Consumers purchasing a luxury travel product are less loss adverse when using an intermediary than when dealing with a supplier directly.

**H1:** Consumers purchasing a luxury travel product are not less loss adverse when using an intermediary than when dealing with a supplier directly.

### 3.3 Hypothesis three –Destination naïveté

**Ho:** Destination naïve travellers are more inclined to use an intermediary to purchase a luxury travel product rather than booking with the supplier directly.

**H1:** Destination naïve travellers do not show a preference towards using an intermediary to purchase a luxury travel product rather than booking with the supplier directly.

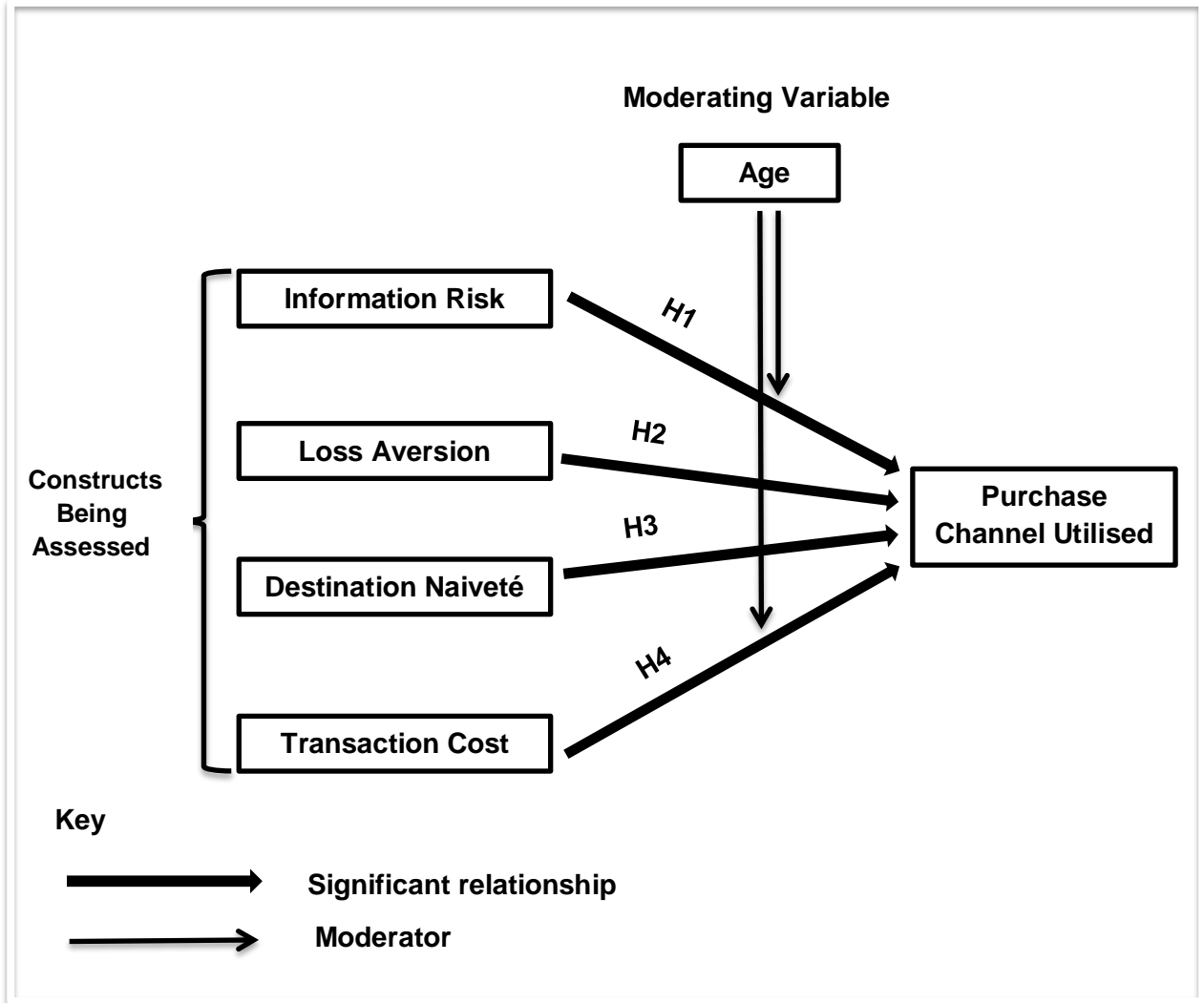
### 3.4 Hypothesis four - Transaction cost

**Ho:** The amount of time involved in sourcing information and concluding a purchase directly with a supplier influences the distribution channel affluent consumers use when purchasing a luxury hotel/resort product.

**H1:** The amount of time involved in sourcing information and concluding a purchase directly with a supplier does not influence the distribution channel affluent consumers use when purchasing a luxury hotel/resort product.

The nature of the proposed study has been graphically represented in figure 2 below. The four psychological constructs of information risk, loss aversion, destination naiveté and transaction cost were explored and tested through statistical analysis techniques to understand their influence on disintermediation in the luxury travel industry in South Africa. A moderator variable in the form of a consumer's age was also incorporated to determine if this demographic characteristic has a significant effect on the strength of these potential relationships and as a result materially affected the decision making process.

Figure 2: Graphical illustration of hypotheses being tested



(Authors own)

## Chapter 4: Research Methodology

### 4.1 Introduction

The previous chapters provided a detailed background on the proposed study and clarified the theoretical aspects of the study from the available literature in the field. From the literature a number of hypotheses were constructed to test consumers' behaviour towards disintermediation in the luxury travel industry in South Africa.

The aim of this chapter is to provide an in-depth description of the most pertinent aspects of the research methodology adopted which comprise:

- Explanation of the research design selected
- Identification of the population applicable to the study
- Description of the unit of analysis
- Definition of the sampling method and size
- Identification of the most appropriate measurement instrument utilised
- Description of the data gathering approach
- Description of the data analysis approach
- Identification of the research limitations

### 4.2 Research design

Quantitative data is defined as data that is collected in a standardised way through the use of instruments such as questionnaires (Saunders & Lewis, 2012). Data is collected on specific variables identified in literature that form the foundation and building blocks of the analysis being conducted. Variables are usually described using numbers and analysed using diagrams and statistics. In contrast, qualitative data is collected in non-standardised ways such as through interviews. Data obtained is analysed to develop and test propositions by identifying commonalities and trends which are described through the use of words.

The nature of the research problem determines the type of methodology that should be adopted. Based on the quantity and depth of previous research conducted in the fields of

disintermediation and consumer behaviour, a quantitative research design approach was selected.

The research followed a deductive or “top-down” approach which begins with the formulation of hypotheses utilising available literature to test an already established theory. The objectives of this type of research are to add value by contributing to current knowledge through the identification of themes that can then be evaluated against data obtained. The emphasis of deductive research is usually focused causality (Creswell, 2013; Saunders & Lewis, 2012). For the purposes of the research, generally accepted social theory on psychological constructs affecting consumer behaviour principles in the luxury hospitality industry was tested against international consumers who visited a specific and unique location, namely South Africa. The research aimed to ascertain whether certain generally accepted theory on consumer behaviour in the luxury travel industry holds true in a South African context.

A descriptive study design was adopted for the research process. Descriptive research gathers quantifiable information to provide conclusive information about the specific behaviour and characteristics of a particular sample group. Descriptive research seeks to determine the answers to who, what, when and how questions (Saunders & Lewis, 2012; Zikmund, Babin, Carr, & Griffin, 2013). The aim of the research was to identify what type of consumers and psychological constructs contribute towards disintermediation in the luxury travel industry in South Africa. The research was therefore focused on making standardised comparisons and identifying relationships between different demographic groups and specific psychological constructs identified in chapter 3.

This methodological approach is consistent with a similar study conducted by Grønflaten (2009) “Predicting Travellers’ Choice of Information Sources and Information Channels” as well as the research performed by Kucukusta et al., (2015) which considers a consumer’s intention to utilise online booking channels. Adopting a quantitative research approach also allows for inferential statistical tests to be performed which helps identify whether patterns observed are real or just due to chance.

A mono-method research design utilising a manual questionnaire was identified as the most appropriate data gathering tool to answer the research questions. A cross-sectional

study was adopted to conduct the research, which analyses a particular topic at a specific point in time (Saunders & Lewis, 2012). Due to the nature of the research and the continued predicted enhancement of digital technologies in the foreseeable future the timeframe applicable to the research was limited. Time constraints were also experienced in the data gathering process which negated the viability of a longitudinal study.

### **4.3 Population**

A population is defined as a complete group of individuals or objects, or a universe from which a sample is selected (Bryman & Bell, 2011; Saunders & Lewis, 2012). For the study conducted the population universe was identified as all current international consumers who booked a holiday at a luxury lodge or hotel in South Africa as well as future consumers. The population was limited to international guests visiting South Africa due to the specific construct of destination naiveté being tested. As consumer knowledge of specific geographic areas may influence purchase behaviour, and due to the fact that all quantitative testing was conducted in South Africa, it was also impossible to infer the findings of the study to any another country.

The nature of the population for luxury tourism and its geographical spread made it impossible to establish the entire population relevant to the study. Along with the above, other reasons for not being able to identify the entire target population included:

- The nature of the universe means its population size is in constant flux. External events or macroeconomic factors either enhance or inhibit a potential consumer's ability to afford a luxury travel product in South Africa.
- The willingness of potential consumers to purchase a luxury travel product in South Africa is also influenced by external factors and events. Potential consumers may either be attracted to, or discouraged from, purchasing luxury travel products based on a set of unique factors important to them.
- Certain consumers are also only attracted for a specific time period or during a specific phase of their life cycle. Therefore, consumers enter and exit the target population based on their desire to purchase a luxury travel product in South Africa at a particular time.



Within the target population, a specific sample population was then identified. A sample is a subset or part of a larger population that is used to represent the entire group (Zikmund et al., 2013). When selecting the sample population, care was taken to ensure the subjects selected were an adequate representation of the entire population. For the study, international guests who travelled to Sabi Sabi Private Game Reserve between the dates of the 6<sup>th</sup> of August 2016 and the 9<sup>th</sup> of September 2016 were identified and utilised as the sample population. Sabi Sabi Private Game Reserve is located in the Sabi Sands Game Reserve in Mpumalanga and operates four independently run five star lodges catering exclusively to the affluent consumer.

The nature of the sample utilised in the study provided the following research benefits:

- The four lodges utilised in the study operate at different price points. This assisted in providing meaningful information to the construct around loss aversion, specifically regarding the financial outlay involved in the purchase process.
- The lodges utilised attract a multitude of international customers from different geographic locations. During the research, questionnaires were filled out by guests from 21 countries covering 5 continents. The responses received provided diverse perspectives and identified trends from specific geographic locations that appeared to influence consumer behaviour when purchasing a luxury travel product.

#### **4.4 Unit of analysis**

- Defining any research problem requires the determination of the unit of analysis being studied (Zikmund et al., 2013). The essence of the research conducted focused on the psychological factors and demographic profiles that influence consumer behaviour and contribute towards consumers using disintermediated channels to purchase luxury travel products in South Africa. Therefore the unit of analysis for the research study was identified as international guests staying at one of the lodges participating in the study. The research study specifically targeted international guests as their perspectives may differ significantly from those of local travellers in terms of the constructs being researched. It was assumed that the sample from these lodges was representative of the target population.

## 4.5 Sampling method and size

A sampling frame is defined as the complete list of all members or items comprising the population (Saunders & Lewis, 2012). It follows that probability sampling can only be conducted when the researcher has access to the complete population. As the total population was unknown and access to certain individuals who formed part of the sample restricted, a non-probability sampling method was adopted. The different types of non-probability sampling techniques that can be utilised include:

- Quota sampling
- Purposive or judgement sampling
- Snowball sampling
- Self-selection sampling
- Convenience sampling

The sampling method best suited to the research conducted was identified as non-probability convenience sampling. A convenience sample can be described as the units or members of the population available to the researcher by virtue of their accessibility (Bryman & Bell, 2011). The demographic variability of the target population allowed the research to be conducted using a convenience sampling method.

Reasons for the non-selection of other potential non-probability sampling methods include:

- Quota sampling is a method utilised when the researcher needs to ensure the sample selected will be represented by certain characteristics that the researcher has chosen and deems important to the study (Saunders & Lewis, 2012). For the research conducted, numerous demographic variables including the respondents age, country of residence, travel party and booking method were obtained which were all deemed important to the study as any of these variables may influence a consumer's purchase behaviour. Therefore multiple demographic combinations existed for each respondent. To try and obtain a quota on each specific demographic variable would have been unrealistic given the number of combinations and time constraints involved in the data gathering process.
- Snowball sampling involves a sampling technique in which the researcher utilises information provided by initial respondents to identify additional respondents (Zikmund et al., 2013). Whilst this technique may have identified additional individuals

who formed part of the population through social circles, access to this portion of the sample was restricted. It would also have been difficult to interact and answer questions using this sampling method.

- Purposive sampling involves judgementally selecting subjects from the population whom the researcher believes will be best suited to answering the research question (Saunders & Lewis, 2012). For the purposes of the study no specific members of the population were better equipped to answer the research questions proposed.
- Self-selection sampling is a “type of probability sampling where possible sample members are asked to identify themselves as willing to take part in the research” (Saunders & Lewis, 2012, p. 140). The hotel participating in the research wished to minimise the study’s impact on guest experience and as such prior communication was not possible.

The factors that need to be considered when determining an appropriate sample size include the confidence level to be accepted, the magnitude of acceptable error and the heterogeneity of the population (Zikmund et al., 2013). Larger sample sizes may be necessary where the population under study is heterogeneous. For the study conducted, whilst the population may have been heterogeneous in terms of age and nationality, individuals were subsequently grouped into broad demographic categories and therefore conclusions could be drawn from a limited number of respondents. This follows on from the fact that sample sizes should not focus on estimates for the entire population but rather concentrate on obtaining a minimum sample that could reasonably be tolerated for the smallest subgroup of importance (Fowler, 2014).

The quasi-experiment conducted consisted of 17 questions. With the statistically proven requirement of having between seven and eight respondents per question (Zikmund et al, 2013) the number of questionnaire responses should have been between 119 and 136. A usable sum of 126 responses was obtained which fell within the specified parameter guidelines. Expanding the sample size was constrained by the time available to conduct the study.

## 4.6 Measurement instrument

According to Saunders and Lewis (2012), the methods typically used in descriptive research to collect data include:

- Questionnaire surveys
- Sampling
- Interviews
- Reanalysis of secondary data

A mono-method research design utilising a manual, non-compulsory questionnaire was selected as the most appropriate method to gather data. The questionnaire utilised has been included in Appendix A. A survey is a particular type of research strategy that collects data through a series of structured questions from a sizeable population (Saunders & Lewis, 2012). When implemented properly, a survey can provide an accurate means of obtaining data to reveal characteristics of the population in a relatively unbiased and scientific manner (Rea & Parker, 2014). Whilst interviews may have yielded more in-depth knowledge to understanding consumer's perspectives, the environment in which data was collected made it highly unlikely that an individual on holiday would agree to an extended in-depth interview.

A new survey questionnaire was designed for the purpose of this research. Demographic variables utilised were matched to existing literature (Grønflaten, 2009). Psychological constructs influencing consumer behaviour and the purchase channel utilised by international travellers in a luxury environment differ considerably from other consumer segments negating the use of previously compiled questionnaires. A 5-point Likert scale was used to understand consumer perspectives with regard to the specific constructs being tested. This scale was deemed most appropriate as respondents were asked to provide a specific opinion on whether certain variables impacted their purchasing decision. Increasing the scale would have added unnecessary complexity to both the respondent and the researcher and was unlikely to yield improved results. The knowledge derived during the literature analysis informed the structure and type of the survey questions. A justification of each item incorporated into a scale has been summarised in table 2.

**Table 2: Literature used to inform survey questions**

Scale	Item	Literature
Information risk	Q1	(Williams & Baláž, 2015; Yacouel & Fleischer, 2012)
	Q2	(Kim et al., 2015; Yacouel & Fleischer, 2012)
	Q3	(Quintal, Lee, & Soutar, 2010; Yacouel & Fleischer, 2012)
	Q4	(Nicolau, 2013; Quintal et al., 2010)
	Q5	(Casaló, Flavián, Guinalú, & Ekinci, 2015)
Loss aversion	Q6	(Lin et al., 2009; Williams & Baláž, 2015)
	Q7	(Nicolau, 2012; Nicolau, 2013)
	Q8	Luxury specific question looking at financial status
	Q9	(Nicolau, 2012; Nicolau, 2013)
Destination naiveté	Q10	(Quintal et al., 2010; Sharifpour et al., 2013)
	Q11	(Quintal et al., 2010; Sharifpour et al., 2013; Williams & Baláž, 2015)
	Q12	(Sharifpour et al., 2013)
	Q13	(Grønflaten, 2009; Kim et al., 2015)
Transaction cost	Q14	(Punj, 2011)
	Q15	(Kracht & Wang, 2010; Punj, 2011)
	Q16	(Yacouel & Fleischer, 2012)
	Q17	Luxury specific question looking at financial status

#### 4.7 Data gathering process

Questionnaires used as the measurement instrument were predominantly given to guests by rangers and lodge managers after they returned from safaris. This approach evolved during the data gathering process. Initially, questionnaires were given to guests at check in to be completed and returned at their own leisure. The reasoning for this approach was to make guests aware of the study on arrival which would increase response rates as time available to complete the questionnaire would be maximised. This approach, however, resulted in a high non-response rate as respondents either forgot or decided not to complete the questionnaire. A far better response rate was achieved when questionnaires were distributed after guests had returned from an enjoyable safari experience and had some free time before dinner. The justification for this altered approach included:

- The mood of the individual at the time of receiving the questionnaire played an important role in the guest's decision to complete the questionnaire. Immediately after returning from a safari guests were often in a good mood as they discussed their unique experiences and sightings.

- It was also noted that if one guest agreed to complete the questionnaire in a public environment others would often follow. Social pressure had a positive effect on response rates.

All questionnaires were completed in pen to ensure data could not be manipulated after submission by the respondent. As part of the data gathering process it is vital to assess both the validity and reliability of the data being collected to ensure any findings made are in fact credible. Validity measures whether or not an indicator compiled to gauge a concept accurately measures that concept ensuring research findings genuinely portray an accurate picture of claims made (Bryman & Bell, 2011; Saunders & Lewis, 2012). Reliability refers to the extent to which data collection methods and analysis procedures produce consistent findings (Saunders & Lewis, 2012, p. 128). The validity and reliability of data gathered was assessed by:

- Setting the context of the research study to ensure respondents were aware of how they should interpret and respond to questions based on the specific information being sought. This will be further elaborated on in the pilot study described below.
- Conducting statistical tests on the data. This included a Cronbach's alpha test and correlation analysis of scale items to the scales average score.

There was no physical interaction between the researcher and the sample population other than when respondents engaged the researcher to ask questions. Bias arising from subjects wishing to impress the researcher was therefore not an issue. There was also no risk of subject bias as the nature of the questions being asked elicited no actual or perceived benefit or risk on the part of the respondent to answer a question in a specific way.

#### **4.8 Analysis approach**

The analysis approach that was adopted for the study will be discussed under the following pertinent headings:

- Data preparation
- Ensuring respondent validity and questionnaire appropriateness
- Statistical analysis performed

#### 4.8.1 Data preparation

Data is the most crucial element in statistical analysis and therefore needs to be relevant, clean and prepared in the correct format for statistical analysis (Wegner, 2012). A manual questionnaire was used to conduct the survey for data gathering purposes. All data received was captured and coded into Microsoft Excel prior to any analysis being performed. Specific coding was carried out to ensure the data generated was easy to interpret (Saunders & Lewis, 2012). All demographic characteristics were coded as nominal data inputs whilst the responses to the questions addressing the constructs of information risk, loss aversion, destination naiveté and transaction cost were captured as ordinal data. Ordinal data is categorical data captured in a specific order (Saunders & Lewis, 2012). The following codes were assigned to question responses:

- Strongly Agree = 1
- Agree = 2
- Neither = 3
- Disagree = 4
- Strongly Disagree = 5

The only other important coding related to channels utilised to complete bookings. All direct bookings made were coded 1, whilst indirect booking channels were coded 2.

As part of the data preparation process all questionnaires received were examined to ensure adequate completeness. From the responses received three questionnaires were eliminated from the data set due to insufficient data. In each case the respondents had failed to fully complete a single set of questions measuring any of the constructs being tested and as such their attitudes and perceptions towards any of the psychological components being researched could not be adequately assessed.

Procedures were also conducted to manipulate the raw data into a format that could then be used to test the research hypotheses. The first part of this process involved identifying negatively worded questions posed in the questionnaire and reverse coding these scores. This process is fundamental in ensuring all high scores on the questionnaire represent high levels of the attribute being measured and visa-versa (Pallant, 2007). Failure to complete this process would impact the reliability and subsequent validity of any tests

conducted. The following negatively worded question was identified and the data subsequently reversed prior to any statistical tests being performed:

- Question 14: Time constraints in my daily life make using an intermediary such as a travel agent or tour operator necessary when purchasing a luxury travel product.

The context of all other questions testing the construct of transaction cost were worded in such a way that respondents would have agreed, or scored lower if they acknowledged transaction costs were not an influencing factor in their decision to use an intermediary. Appendix B provides the coding used to capture responses.

A total average scale score was then calculated for each of the four constructs being tested. This process was performed in order to conduct the correlation tests and measure the strength of association between each item comprising a scale and the overall psychological component being tested. Items or questions not deemed valid due to low correlation scores were removed from the data.

The final data manipulation procedure performed involved collapsing the distribution channel data obtained in question 7 of the demographic section of the questionnaire to either a direct or indirect booking method. This was necessary to successfully answer the research question. Direct interactions with the hotel and lodge as well as bookings made through web applications were grouped as direct booking methods whilst the use of face-to-face travel agents, online travel agents and tour operators were grouped as indirect.

#### **4.8.2 Ensuring respondent validity and questionnaire appropriateness**

Question 3 of the demographic section served the dual purpose of providing demographic information and acting as a qualifying question. The research focused on understanding international consumers' behaviour towards disintermediation in the luxury hotel market. As such only international guests formed part of the universe under study. Two South African respondents were identified through this process and eliminated from the sample. The second qualifying criteria looking specifically at luxury consumers did not need to be tested via a qualifying question due to the fact that the questionnaire was administered at a luxury lodge and as such all guests automatically met the criteria. Completing this



process ensured all data utilised for statistical analysis was received from respondents who formed part of the target population.

A pilot study was conducted prior to the distribution of the survey questionnaires to test both the relevance of the measurement instrument and its ability to draw reliable and valid information. The use of a questionnaire limits the ability of a respondent to provide a detailed response to questions. Five individuals were asked to provide responses to questions aimed at:

- Determining the suitability of questions posed to answer the research question.
- Understanding whether individuals were able to correctly interpret questions in relation to the context of the study.

From the responses received questions on information risk, destination naiveté and transaction cost were easily interpreted by the respondents. The concept relating to loss aversion was not always understood and therefore:

- 1 An insert was added to the questionnaire which explained the concept of loss aversion.
- 2 The individuals (rangers and lodge managers) distributing the questionnaires were trained to ensure they understood the concept and were able to assist respondents who had issues interpreting specific questions.

A total of 225 uniquely numbered questionnaires were printed prior to the study. Whilst it was impossible to calculate an accurate response rate as respondents were asked prior to the distribution of questionnaires if they would like to participate in the study, it was noted that there were certain individuals who refused to participate. This combined with the fact that there were seventeen questionnaires which were distributed but not returned implies an element of non-response bias. Table 3 provides a graphical illustration of responses received.

**Table 3: Responses received**

Description	Number	%
Questionnaires printed	225	100%
Questionnaires distributed	148	66%
Questionnaires returned	131	58%
Usable questionnaires returned	126	56%

From the 126 useable questionnaires received, only respondents who answered all questions making up a construct were included in the analysis. 122 complete responses were received for the construct measuring loss aversion whilst 124 and 125 complete responses were received for constructs measuring destination naiveté and transaction cost respectively.

#### **4.8.3 Statistical analysis performed**

Three components of statistical methodology exist. They comprise descriptive statistics, statistical inference and statistical modelling (Wegner, 2012). For the research, both descriptive and inferential statistical tests were applied. Whilst descriptive statistics allows data to be condensed into a few summary descriptive measures, inferential statistics allows for sample findings to be generalised to the broader population under study (Wegner, 2012). The demographic variables detailed in the questionnaire were predominantly categorical in nature and as such the only valid descriptive statistical measures that could be utilised were categorical frequencies. Measures of skewness and dispersion have no meaning for categorical data and were therefore not reported (Wegner, 2012).

A factor analysis was performed on the data obtained to identify the underlying relationships that exist for a set of questions measuring a psychological construct. This helped reduce the large amount of data into one or two clearly identifiable components that could then be utilised in subsequent statistical analysis.

A correlation analysis was then performed to determine the strength of the relationships between the psychological constructs identified in the literature and their influence on a consumer utilising a disintermediated channel to make a luxury travel purchase in South

Africa. Correlation analysis identifies the strength of relationships to determine which independent variables may be useful in determining the response variable (Wegner, 2012). A 95% confidence level was selected for all statistical tests performed.

#### **4.9 Research limitations**

This section describes the limitations that arose due to the nature of the research, the individual attributes of respondents and the manner in which the research was conducted.

- The size and spread of the population under study was not known. Therefore it was difficult to determine with any degree of accuracy the representation needed in the sample to be able to infer the results derived to the population. Potential purchasers were impossible to identify and as such were not represented in the data.
- Not all the universe was available for sample due to the data collection tool used. Only actual consumers who had purchased a luxury hospitality package at one of the four lodges participating in the study during the data gathering period had the opportunity to be selected. The fact that only one company was used may also have influenced the results of the study. Direct purchasing intentions can be affected by the quality, accessibility and ease of use of a supplier's website or other direct booking channels. This can vary drastically across suppliers. The fact that Sabi Sabi Private Game Reserve appears towards the top of search engine results when looking for luxury lodges in South Africa may mean it obtains more direct bookings than a smaller boutique establishment that cannot be easily found on website searches.
- In certain instances language became a concern. Certain individuals represented in the population did not speak English as a first language or at all, and as such were either unable to complete the questionnaire or had difficulty interpreting the questions. After initial issues, discretion was used when identifying suitable respondents in an attempt to minimise potential English literacy bias. This did, however, create an element of subjectivity which introduced potential sample bias.
- The time during which the research was conducted may have impacted the demographic make-up of respondents who were utilised for data gathering purposes. During the period of the study the lodges utilised also experienced higher than average volumes of American and European guests. This was due to the fact that it was the

summer holiday season for these destinations. This may have skewed or created an element of unintentional bias in the sample.

- The nature of the study and method of the questionnaire administration meant that there were individuals in the population who did not complete the questionnaire. This introduces an element of non-response bias to the data being used to validate constructs which may have skewed results.
- A non-probability sampling technique was used. This increased the potential for bias and may have impacted the validity of results if it was not carefully monitored and mitigated.

## Chapter 5: Results

### 5.1 Introduction

This chapter provides a detailed description of the research findings derived from the data gathered from respondents who completed the questionnaire detailed in Appendix A. Data obtained from the manual questionnaire was captured into Microsoft Excel, cleaned and subsequently uploaded into SPSS for analysis. The discussion in the rest of the chapter will address the following elements associated with the analysis process:

- Descriptive statistics performed
- Determination of scale reliability and validity
- Results of factor analysis and implications for inferential tests
- Findings of normal distribution tests
- Findings of inferential statistical tests performed to answer the hypotheses proposed in chapter 3

### 5.2 Descriptive statistics

The first form of analysis conducted was to explore and understand the demographic make-up of the respondents who participated in the study. Descriptive statistics allows sample data to be condensed into a few summary descriptive measures for easy interpretation (Wegner, 2012). Understanding frequency data is important as it informs the type of statistical analysis that can be performed based on the number of samples obtained. The following information was gathered for each respondent:

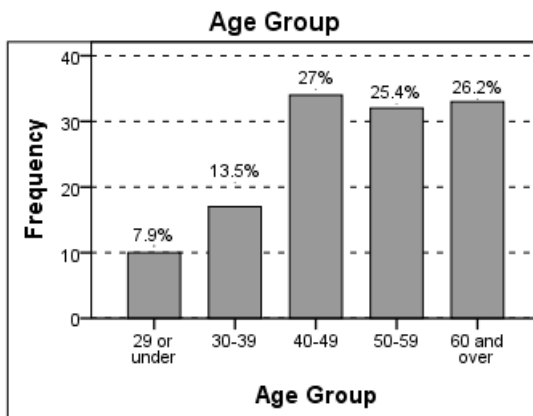
- Age Group of the respondent (29 years or younger, 30 – 39 years, 40 – 49 years, 50 - 59 years, or 60 years and older)
- Gender (male or female)
- Country of primary residence which was subsequently categorised into continents (North America, South America, Europe, Asia, or Australasia)
- Travel party type (individual traveller, travelling with a spouse or partner, travelling with family, travelling by myself or with colleagues for work purposes, travelling as part of a tour group)
- Main purpose of trip (business, leisure, both)

- First trip to South Africa (yes, no)
- Purchase channel utilised to make booking (direct with hotel, face-to face travel agent, online travel agent, tour operator, or web application).

The nature of the data collected informs the type of descriptive statistics that can be run. In the case of the questionnaire utilised, all data obtained was either nominal or ordinal in nature. Nominal data is categorical data where codes are assigned to distinct categories that have no numerical properties (Wegner, 2012). This related to all demographic questions. Ordinal data is also related to categorical data but comprises numerical scores that have no meaningful value beyond their ability to define a ranking between the various categories of the qualitative random variable (Wegner, 2012). For categorical type data the only valid descriptive statistical measures that can be performed are frequency analyses.

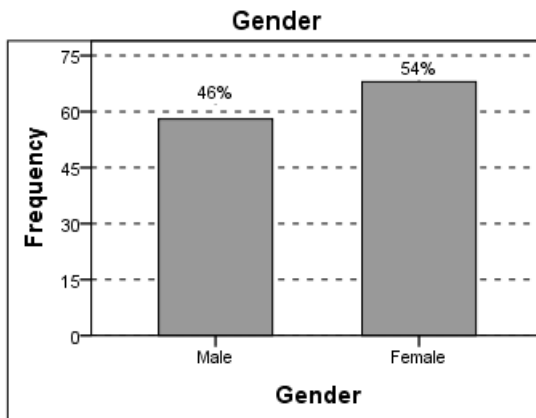
A total of 10 individuals (7.9%) under the age of 29 responded to the survey, whilst those in their thirties numbered 17 (13.5%). Higher response rates were achieved for individuals in their forties (34 individuals or 27%), fifties (32 or 25.4%) and over 60 (33 or 26.2%). This demographic make-up appears reasonable as a lower frequency of younger travellers was expected based on the fact that the product purchased is only available to the more affluent consumer. As individuals get older and progress in their careers their wealth should rise positively impacting their ability to afford a luxury hospitality product. The frequency of respondents from varying age categories allows this independent variable to be utilised as a moderator when conducting inferential statistics. Figure 3 illustrates the age group frequency distribution described above.

**Figure 3: Frequency distribution of age groups**



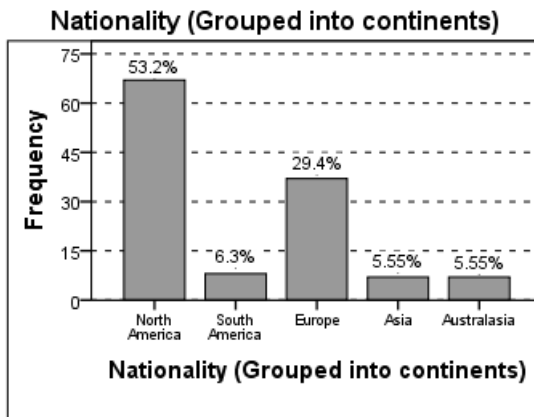
The gender of respondents was fairly evenly spread with 58 male respondents (46%) and 68 female respondents (54%). Even though respondents predominantly travelled with partners and often concluded their purchase after consultation with their partner, their interpretations and responses to the questions posed on the four constructs often differed materially from one another. Figure 4 illustrates the frequency distribution of the respondent's gender.

**Figure 4: Frequency distribution of gender**



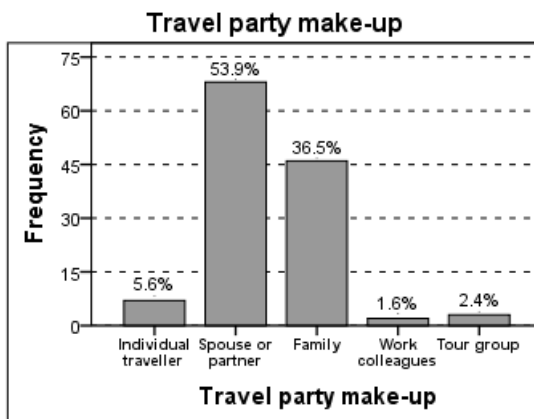
The majority of respondents were either from North America (67, or 53.2%) or Europe (37, or 29.4%). Smaller insignificant responses with specific reference to geographic spread were obtained from South America (8, or 6.3%), Asia (7, or 5.55%) and Australasia (7, or 5.55%). This representation was to be expected based on the particular lodges' primary target markets as well as the specific time of year the questionnaire was administered. August and September fall into the summer holiday period for many northern hemisphere countries and increased travel is often experienced over these periods. The demographic profile of respondents limited the statistical tests that could be performed utilising this independent variable. Based on response rates the only statistically significant samples were obtained from North America and Europe. Figure 5 shows the frequency distribution of nationality grouped into continents.

**Figure 5: Frequency distribution of nationality (grouped into continents)**



The majority of respondents either travelled with spouses or partners (68 or 53.9%) or as part of a family (46 or 36.5%). The negligible response rate achieved for individuals who travelled alone (7 or 5.6%), for business (2 or 1.6%) and as part of a tour group (3 or 2.4%) negates these independent variables being used for further statistical analysis. Figure 6 shows the frequency distribution of travel party.

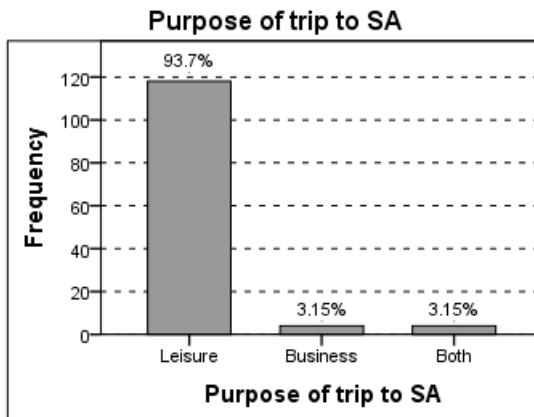
**Figure 6: Frequency distribution of travel party**



Almost all respondents travelled to South Africa for leisure purposes (118, or 93.7%). Only 4 individuals (3.15%) travelled predominantly for business purposes. Figure 7 shows the frequency distribution of trip purpose.

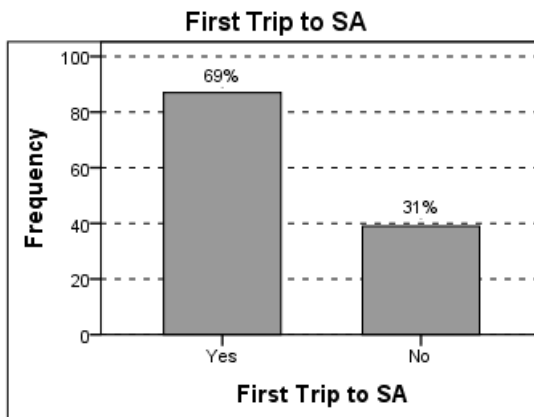


**Figure 7: Frequency distribution of trip purpose**



The majority of respondents (87 or 69%) were first time visitors to South Africa with the remainder of respondents (39 or 31%) being repeat visitors. Figure 8 shows a frequency distribution of previous trips to South Africa. This specific frequency could potentially be used to derive further knowledge relating to the destination naiveté construct based on the results of inferential statistics performed. Figure 8 shows the frequency distribution of respondents who had previously visited South Africa.

**Figure 8: Frequency distribution of previous trips to South Africa**

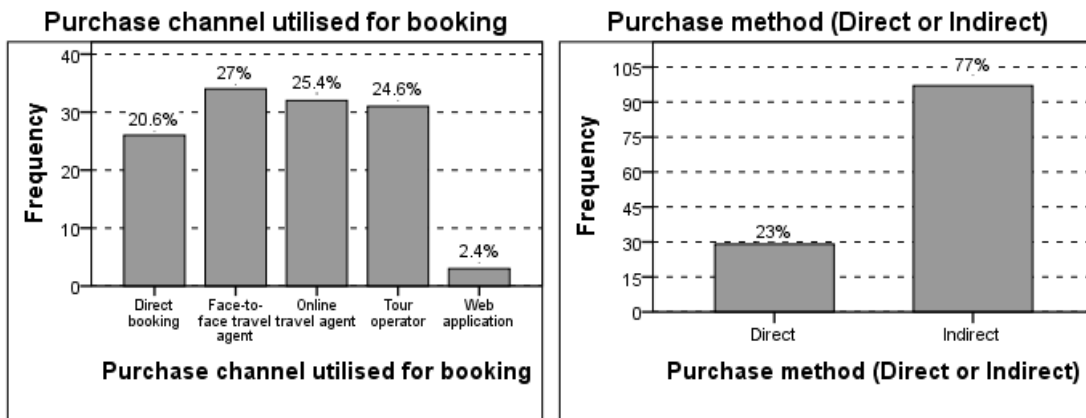


Apart from web application bookings (3 or 2.4%) a fairly even spread was obtained for all other major booking methods. The most pertinent category applicable to the study, namely direct bookings constituted 20.6%, or 26 of total responses. This purchasing channel along with web bookings was subsequently combined to show the total number of direct bookings made. For the purposes of this study web applications were viewed as a direct booking channel as it does not offer any meaningful intermediary service prior to purchase.

Figure 9 (on the left below) shows the frequency distribution for booking methods utilised whilst figure 10 (on the right below) classifies these booking methods into direct or indirect channels based on the logic described above.

**Figure 9: Frequency distribution of booking methods (expressed by booking method)**

**Figure 10: Frequency distribution of booking methods (collapsed into direct & indirect channels)**



### 5.3 Scale reliability and data validation

When conducting statistical tests it is important to ensure that scales are reliable. Reliability is described as a scale’s internal consistency or the degree to which the various questions forming the scale relate to one another and thus they analyse the same underlying construct (Pallant, 2007). The most commonly used statistical method to test reliability is Cronbach’s Alpha. Ideally the Cronbach’s Alpha score should be greater than 0.7 to indicate scale reliability (Pallant, 2007). Table 4 provides a summarised extract of the reliability scores of each scale tested, namely information risk, loss aversion, destination naiveté and transaction cost. From the data it was determined that the only scale that met the criteria for reliability using the Cronbach’s Alpha test was that for loss aversion which achieved a Cronbach’s Alpha score of 0.704.

**Table 4: Summary of scale reliability assessing Cronbach's Alpha results**

<b>Reliability Statistics</b>				
<b>Construct/Scale Being Tested</b>	<b>Questions Incorporated into Analysis</b>	<b>Cronbach's Alpha</b>	<b>Cronbach's Alpha Based on Standardized Items</b>	<b>N of Items</b>
Information Risk	Q1 - Q5	0.330	0.342	5
Loss Aversion	Q6 -Q9	0.704	0.700	4
Destination Naiveté	Q10 - Q13	0.448	0.454	4
Transaction Cost	Q14 - Q17	0.574	0.576	4

When making use of short scales (e.g. scales with fewer than ten items), it is common to find quite low Cronbach values (Pallant, 2007, p. 95). In instances where shorter scales are utilised it is often deemed more appropriate to determine and report reliability using the average inter-item correlation score. In the case of the questionnaire utilised, scales consisted of between four and five questions and as such met the requirement for an alternative reliability assessment using the average inter-item correlation score.

The results of the inter-item correlation scores have been reported in Table 5 below. Briggs & Cheek, (1986) recommend an optimal range for the inter item correlation of .2 to .4. The results for the scales of Loss Aversion and Transaction costs fell within the optimal parameters, with the inter-item correlation for Destination Naiveté falling just outside the optimal range. The score for information risk was still significantly lower than the optimal range at 0.094.

**Table 5: Summary of scale reliability assessing inter-item correlation**

<b>Inter-item Correlation data</b>								
<b>Construct/Scale Being Tested</b>	<b>Questions Incorporated into Analysis</b>	<b>Mean</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Range</b>	<b>Maximum / Minimum</b>	<b>Variance</b>	<b>N of Items</b>
Information Risk	Q1 - Q5	0.094	-0.154	0.496	0.650	-3.226	0.047	5
Loss Aversion	Q6 -Q9	0.368	0.216	0.561	0.345	2.594	0.020	4
Destination Naiveté	Q10 - Q13	0.172	0.051	0.268	0.217	5.302	0.006	4
Transaction Cost	Q14 - Q17	0.253	0.040	0.443	0.403	11.123	0.018	4

The final aspect of analysis conducted to determine scale reliability involved an assessment of the Item-Total Statistics table for each scale being tested. This was

conducted to identify if any specific questions making up the original scale had impacted the scale’s reliability through either a low or negative correlation with the other scale items. The “Cronbach's Alpha if Item deleted” column depicts the new theoretical Cronbach Alpha value that would be achieved if a specific question was removed from the scale.

From the analysis conducted it was noted that question 17 “Money is not an influencing factor in my decision to either use an intermediary such as a travel agent or tour operator or book a luxury hotel product directly”, forming part of the transaction cost scale was poorly correlated with other questions making up the scale, and if deleted would increase the Cronbach Alpha score from 0.574 to 0.624. Based on question 17’s poor correlation the decision was taken to eliminate it from the scale. Table 6 provides a graphic illustration of the interpretation provided above. All other questions utilised to gather data on the scales being tested did not significantly improve the scale’s reliability if removed and as a result were retained for further analysis.

**Table 6: Summary of item-total statistics for transaction cost construct**

**Item-Total Statistics (transaction cost)**

Questions forming scale	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
Question 14 (Reversed)	8.88	5.914	0.308	0.148	0.542
Question 15	8.98	5.575	0.439	0.220	0.437
Question 16	9.05	5.102	0.508	0.278	0.372
Question 17	9.67	6.624	0.195	0.061	0.624

**Conclusion on reliability:**

Reliability for the constructs of loss aversion and transaction costs was confirmed. Although the construct of destination naiveté did not meet the requirements its mean inter-item correlation score of 0.172 fell only marginally outside the optimal prescribed guidelines. As such further statistical analysis was conducted on this construct to identify potential interesting findings and useful information with a potential data reliability limitation being noted. The construct of information risk failed all reliability tests and as such no further testing was conducted on this construct.

## Determination of data validity

Testing reliability alone is insufficient; data also needs to be tested for validity before any type of statistical analysis can be performed. Validity describes how well a specific set of questions measure the constructs they have been designed to test. The questions forming the scales for loss aversion, destination naiveté and transaction cost were assessed for validity using a Pearson's correlation test. The total item score correlation was assessed against each question by inspecting the Sig. (2-tailed) or p-value in the table. A p-value of less than 0.05 is needed to confirm validity as the tests were run at a 95% confidence level. The results of the tests have been summarised in tables 7 to 9 and interpreted as follows:

In each instance the p-value showing the correlation between the scales total score and each question making up the scale was less than 0.05 and as such it was confirmed that question validity was significant.

**Table 7: Summary of correlation analysis for loss aversion**

**Correlation - loss aversion**

		Question 6	Question 7	Question 8	Question 9
Total score for loss aversion	Pearson Correlation	.818**	.746**	.575**	.760**
	Sig. (2-tailed)	0.000	0.000	0.000	0.000
	N	122	122	122	122

\*\* . Correlation is significant at the 0.01 level (2-tailed)

**Table 8: Summary of correlation analysis for destination naiveté**

**Correlation - destination naiveté**

		Question 10	Question 11	Question 12	Question 13
Total score for destination naiveté	Pearson Correlation	.589**	.624**	.599**	.648**
	Sig. (2-tailed)	0.000	0.000	0.000	0.000
	N	124	124	124	124

\*\* . Correlation is significant at the 0.01 level (2-tailed).

**Table 9: Summary of correlation analysis for transaction cost**

**Correlation - transaction cost**

		Question 14 (Reversed)	Question 15	Question 16
Total score for transaction cost	Pearson Correlation	.639**	.709**	.762**
	Sig. (2-tailed)	0.000	0.000	0.000
	N	126	126	126

\*\* . Correlation is significant at the 0.01 level (2-tailed).

## 5.4 Factor Analysis

A principle component analysis was performed on the three scales that met the assumptions of reliability and validity. A factor analysis is a data reduction process that is used to reduce a large number of related variables into a more manageable figure prior to conducting statistical analysis (Pallant, 2007). The results of the factor analysis tests conducted were assessed for each specific construct using the following criteria:

- Assessing the Kaiser-Meyer-Olkin or (KMO) measure of sampling adequacy and Bartlett's test of sphericity to determine the acceptability of conducting a factor analysis on the scale in question.
- Determining the number of factors to be retained. The techniques that can be used to assist in the determination of factor retention include Kaiser's criterion, scree tests and parallel analysis (Pallant, 2007). The analysis performed utilised both Kaiser's criterion and scree plots.
- Analysing the Rotated Component Matrix table to determine which questions load onto a specific factor where more than one component has been identified.

In order to conduct a factor analysis it is required that the KMO measure of sampling adequacy exceed 0.5 and the p-value for the Bartlett's test of sphericity be less than 0.05. The KMO measure of sampling adequacy tests to see if there are linear relationships between the variables which informs the appropriateness of running a principal component analysis (Laerd Statistics, 2015).

#### 5.4.1 Factor analysis results for loss aversion

The mediocre KMO score of 0.683 (above the minimum threshold of 0.5) and the p-value of Bartlett’s test of sphericity of 0.00 (below 0.05), as expressed in table 10 confirm the appropriateness of conducting a factor analysis for the items making up the scale for Loss Aversion (Laerd Statistics, 2015). This is due to the fact that all variables making up the factor are in fact significantly correlated (as expressed by p-value of 0.00) and as such the individual items can be grouped together into a reduced number of components for future analysis.

**Table 10: KMO and Bartlett’s Test scores for scale measuring loss aversion**

<b>Kaiser-Meyer-Olkin Measure of Sampling Adequacy.</b>		<b>0.683</b>
<b>Bartlett's Test of Sphericity</b>	<b>Approx. Chi-Square</b>	<b>98.409</b>
	<b>df</b>	<b>6</b>
	<b>Sig.</b>	<b>0.000</b>

The table explaining total variance and scree plot were subsequently assessed to determine the appropriate number of components to retain. The SPSS output data for these techniques is represented below in table 11 and figure 11 respectively. Only Eigen-values greater than 1 were extracted as factors based on the criteria established when performing the analysis (Laerd Statistics, 2015). The total variance explained table indicated one component with an Eigen-value of 2.141 was to be retained. The component retained is able to explain 53.5% of the variance between the items making up the component. This was established after inspection of the percentage of variance score under the “extraction sums of squared loadings” section in table 11. This result could also be established by dividing the Eigen-value for the component extract by the total number of components.

The scree plot was inspected to corroborate Kaiser’s criterion. When determining the components to retain using scree plots one looks to retain only components above the scree. This can also be described as the point where the line or slope on the plot tends to taper off. In this case the slope of the plot tapers off considerably from the second to third item and as such it was determined that only one component would be retained. The

results of the Kaiser’s criterion test and scree plot analysis yield the same findings and as such it was confirmed that one factor be retained from the scale measuring loss aversion.

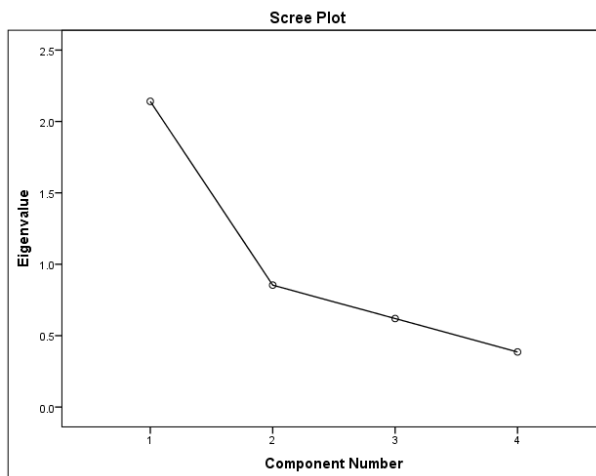
**Table 11: Total variance explained for loss aversion scale**

**Total Variance Explained**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.141	53.516	53.516	2.141	53.516	53.516
2	0.854	21.350	74.865			
3	0.620	15.496	90.361			
4	0.386	9.639	100.000			

Extraction Method: Principal Component Analysis.

**Figure 11: Scree plot for component determination for loss aversion scale**



The final aspect of the principle component analysis conducted for the items measuring the construct of loss aversion involved renaming the single component identified which was used in subsequent statistical analysis. This was performed by inspecting the Component Matrix in table 12. The results of the component matrix table indicate the strength of the relationship, or correlation between the component extracted and each item making up the scale, in this case the four questions measuring the construct of Loss Aversion. In this case it was noted that question 6, “Using an intermediary such as a travel agent or tour operator reduces the chances I will be disappointed due to a hotel/lodge not meeting my specific tastes and expectations” had the highest correlation score (0.840) with the component extracted. Questions 7 and 9 also showed significant correlations and



dealt with the concept of financial outlay and unwillingness to suffer a poor experience as reasons to utilise an intermediary in the purchasing process. Based on the above, the new component identified for future analysis has been labelled as financial and experiential loss.

**Table 12: Component Matrix loadings for items making up loss aversion component**

Component Matrix	
	Component
	1
Question 6	0.840
Question 7	0.769
Question 8	0.520
Question 9	0.758
Extraction Method: Principal Component Analysis.	
a. 1 components extracted.	

An identical process to the one described above was applied to the constructs of destination naiveté and transaction cost. Results have been summarised using the same logic applied to the principle component analysis conducted for the construct of Loss Aversion.

#### 5.4.2 Factor analysis results for destination naiveté

The KMO score of 0.592 (above the minimum threshold of 0.5) and p-value of Bartlett's test of sphericity of 0.01 (below 0.05), as expressed in table 13, confirm the appropriateness of conducting a factor analysis for the items making up the scale for destination naiveté.

**Table 13: KMO and Bartlett's Test scores for scale measuring destination naiveté**

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.592
Bartlett's Test of Sphericity	Approx. Chi-Square	23.211
	df	6
	Sig.	0.001

The total variance explained, summarised in table 14 below, identified two components with Eigen-values above 1 to be retained. The Eigen-value scores were 1.294 for component 1 and 1.241 for component 2. The components retained were able to explain 63.4% of the variance between the items making up the component. Component 1 contributed approximately 32.3% with component 2 contributing 31%.

The scree plot corroborated the results of the Kaiser’s criterion test. The plot only began to taper off between the third and fourth component indicating two components should be retained. As the results of the Kaiser’s criterion test and scree plot analysis yielded the same findings it was confirmed that two factors would be retained from the scale measuring destination naiveté.

**Table 14: Total variance explained for destination naiveté scale**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
	1	1.527	38.172	38.172	1.527	38.172	38.172	1.294	32.349
2	1.009	25.213	63.385	1.009	25.213	63.385	1.241	31.036	63.385
3	0.751	18.779	82.164						
4	0.713	17.836	100.000						

Extraction Method: Principal Component Analysis.

**Figure 12: Scree plot for component determination for destination naiveté scale**



As more than one component was identified for retention the Rotated Component Matrix, table 15 illustrated below, was inspected to identify the specific items or questions that load onto each component and as a result will be grouped together when calculating the total average score for the two components which will subsequently be used when conducting inferential statistics. Rotation only exists when two or more components are identified (Laerd Statistics, 2015). From the results depicted in table 15 below it was clearly evident that questions 10 and 11 load onto component 1 due to their high correlations of 0.826 and 0.728, whilst questions 12 and 13 load onto component 2 with correlations of 0.843 and 0.689 respectively.

Questions 10 and 11 had high correlations with component 1 and dealt with the concept of first-hand knowledge generated through prior visits to South Africa and knowledge derived from prior travel experiences. As such component 1 has been classified as first-hand knowledge and accumulated travel experience. Questions 12 and 13 dealt with current perceived knowledge as well as perceived accessible knowledge that can be obtained through mediums such as the internet. As such component 2 has been classified as perceived and accessible knowledge.

**Table 15: Rotated Component Matrix for components measuring destination naiveté**

**Rotated Component Matrix<sup>a</sup>**

	Component	
	1	2
Question 10	0.826	-0.048
Question 11	0.728	0.230
Question 12	-0.073	0.843
Question 13	0.278	0.689

Extraction Method: Principal Component Analysis.  
Rotation Method: Varimax with Kaiser Normalization.  
a. Rotation converged in 3 iterations.

#### 5.4.3 Factor analysis results for transaction cost

The KMO score of 0.620 (above the minimum threshold of 0.5) and p-value of Bartlett's test of sphericity of 0.00 (below 0.05), as expressed in table 16, confirm the appropriateness of conducting a factor analysis for the items making up the scale for transaction cost.

**Table 16: KMO and Bartlett’s Test scores for scale measuring transaction cost**

<b>KMO and Bartlett's Test</b>		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.620
Bartlett's Test of Sphericity	Approx. Chi-Square	46.163
	df	3
	Sig.	0.000

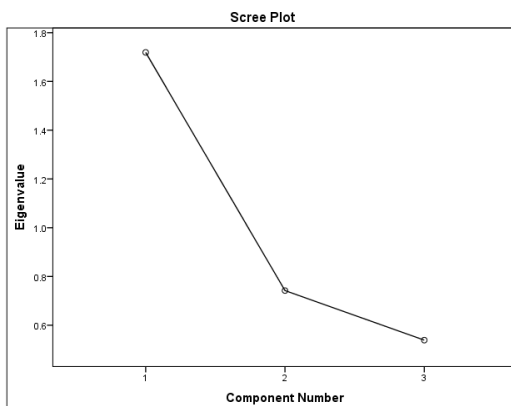
The total variance explained, summarised in table 17, identified one component with an Eigen-value above 1 to be retained. The Eigen-value score was 1.719. The component retained was able to explain 57.3% of the variance between the items making up the component. The scree plot, detailed in figure 13, corroborated the results of the Kaiser’s criterion test. The plot tapered off between the second and third components indicating only one component should be retained. As the results of the Kaiser’s criterion test and scree plot analysis yielded the same findings it was confirmed that one factor would be retained from the scale measuring transaction cost.

**Table 17: Total variance explained for transaction cost**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
	1	1.719	57.300	57.300	1.719	57.300
2	0.742	24.740	82.040			
3	0.539	17.960	100.000			

Extraction Method: Principal Component Analysis.

**Figure 13: Scree plot for component determination for transaction cost scale**



The results of the component matrix table indicate the strength of the relationship, or correlation between the component extracted and each item making up the scale, in this case the three remaining questions measuring transaction cost. In this case it was noted that question 16: “I believe that I am able to put together a luxury trip that is better suited towards my tastes and experiential preferences than an intermediary such as a travel agent or tour operator would be able to offer me.” had the highest correlation score (0.815) with the component extracted. Questions 15 and 14 also showed significant correlations and dealt with the concept of time constraints and how this may or may not affect the purchase channel utilised. Based on the above the new component identified for future analysis has been labelled personal preferences and time constraints.

**Table 18: Component matrix loadings for items making up transaction cost Scale**

**Component Matrix<sup>a</sup>**

	Component
	1
Question 14 (Reversed)	0.692
Question 15	0.759
Question 16	0.815

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

## 5.5 Test of data normality

The normality of data impacts the type of inferential statistics that can be performed. Parametric statistical tests require that the data is approximately normally distributed for each category of the independent variable (Pallant, 2007). As such prior to conducting the correlation tests described in the data analysis section of chapter 4, an investigation was conducted to determine the normality of the data after collapsing the items measuring each psychological construct into the components identified from the factor analysis described in section 5.4. The following tests were conducted in this regard:

- Assessing the skewness and kurtosis of the dependent variables. Z-value scores determined by dividing the statistic by its standard error were also calculated. To indicate normality the z-score should fall somewhere between the range of -1.96 to 1.96.

- Inspecting the Shapiro-Wilk test p-value. To assume normal distribution the p-value should be greater than 0.05 (Pallant, 2007).

### 5.5.1 Assessment of skewness and kurtosis

The skewness and kurtosis values for each component extracted from the factor analysis were examined by assessing the descriptives output generated from SPSS. A summarised extract of the output has been documented in table 19 below. From the assessment it was noted that the skewness and kurtosis values differed significantly between a range of 0.12 and 0.606. The lower the absolute value, the more normally distributed the data is (Pallant, 2007). The 0.606 skewness value for the first component of destination naiveté appeared significant indicating the data for this component may not be normally distributed. The kurtosis value for the component measuring transaction cost was also significant with a score of -0.608. The significance of these scores and the indication that data may not be normally distributed was further corroborated by inspecting the z-value scores which came out to 2.755 and -1.394 respectively. Based on these results it was determined that the data making up component one testing destination naiveté was not normally distributed as its z-score was above the 1.96 threshold used to gauge normality. All other z-scores fell within the stipulated range (Pallant, 2007).

**Table 19: Extract of descriptive data for components**

Descriptives		Statistic	Std. Error	Z-Score
Average score for financial & experiential loss (Loss aversion component)	Skewness	-0.104	0.220	-0.474
	Kurtosis	-0.393	0.437	-0.900
Average score for first-hand knowledge (Destination naiveté component 1)	Skewness	0.606	0.220	2.755
	Kurtosis	0.012	0.437	0.027
Average score for prior and accessible knowledge (Destination naiveté component 2)	Skewness	-0.170	0.220	-0.774
	Kurtosis	-0.212	0.437	-0.486
Average score for personal preferences and time constraints (Transaction cost component)	Skewness	0.024	0.220	0.111
	Kurtosis	-0.608	0.437	-1.394

### 5.5.2 Assessment of Shapiro-Wilk test of normality

The Shapiro-Wilk test was then assessed. The null hypothesis for this test assumes that the data is normally distributed. The hypothesis is confirmed if the p-value is greater than 0.05 (Pallant, 2007). Table 20 below provides a summary of the results. In the case of the component measuring loss aversion the p-value of 0.106 is greater than 0.05 and as such the null hypothesis is accepted at a confidence level of 95%. All other Shapiro-Wilk scores for both components of destination naiveté and transaction cost are below 0.05 and as such it can be concluded that the data is not normally distributed.

The results for both the construct of loss aversion and component 1 of destination naiveté have been corroborated with the tests performed to analyse skewness and kurtosis described in section 5.5.1 above. The results for the second component of loss aversion as well as the component assessing the construct of transaction cost differ from the skewness and kurtosis results. The results of the Shapiro-Wilk test have however been used as the overarching test implying that the data is not normally distributed.

**Table 20: Extract of Shapiro-Wilk test used to assess data normality**

	Tests of Normality					
	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Average score for financial & experiential loss (Loss aversion component)	0.091	121	0.016	0.982	121	0.106
Average score for first-hand knowledge (Destination naiveté component 1)	0.220	121	0.000	0.917	121	0.000
Average score for prior and accessible knowledge (Destination naiveté component 2)	0.167	121	0.000	0.959	121	0.001
Average score for personal preferences and time constraints (Transaction cost component)	0.105	121	0.002	0.973	121	0.015

a. Lilliefors Significance Correction

## 5.6 Statistical analysis performed to test constructs identified in chapter 3

The hypotheses proposed in chapter 3 have been tested by means of a correlation analysis. Correlation analysis is used to describe the strength and direction of the relationship between two variables (Pallant, 2007, p. 120). Correlation coefficients can only take on values between  $-1$  to  $+1$ , with greater absolute values indicating a stronger relationship between the variables. A positive score indicates a positive correlation (as one variable increases, so the other variable also increases) whilst a negative score indicates an inverse relationship (as one variable increases, the other decreases) (Pallant, 2007).

The nature and wording of the survey questions added an element of complexity to the data interpretation. For the scale measuring loss aversion, a lower component score indicated that the psychological factor being tested influenced a respondent's decision to utilise the services of an intermediary during the purchase process. For destination naiveté, higher component scores indicated consumers did not believe they possessed an adequate knowledge of South Africa and its luxury travel product offerings and this influenced their decision to utilise the services of an intermediary during the purchase process. Finally, in the case of transaction cost, a lower component score indicated that respondents feel that utilising an intermediary does not save time or guarantee a better experience suited towards their needs, and this influenced their decision to book directly with the supplier. Based on the explanation given above, it is clear that the sign attached to each correlation to test the component had no definitive meaning unless interpreted in conjunction with the questions making up the component. The above interpretation has been summarised in Table 21 below. Questions posed to respondents in the survey questionnaire have been detailed in Appendix A.



**Table 21: Correlation analysis interpretations**

<b>Booking method coding</b>	
<b>Direct bookings</b>	1
<b>Indirect bookings</b>	2
<b>Component being tested:</b>	<b>Loss aversion</b>
<b>Lower scores indicate:</b>	
That respondents agree that utilising the services of an intermediary reduces both financial risk and the chance that a product will not meet their specific experiential expectations.	
<b>Component being tested:</b>	<b>Destination naiveté</b>
<b>Lower scores indicate:</b>	
That respondents believed they had an in-depth or adequate knowledge of the destination being visited prior to the trip and as such did not require the assistance of an intermediary in the purchase process. Therefore the greater the perceived knowledge of the consumer, the more likely they were to purchase the luxury travel product directly.	
<b>Component being tested:</b>	<b>Transaction cost</b>
<b>Lower scores indicate:</b>	
That respondents believe that utilising an intermediary does not save time in the purchasing process, nor do they consider saving time a necessity when concluding this purchase and therefore there is no need to utilise the services of an intermediary in the booking process.	

### 5.6.1 Hypothesis 1- Information Risk

**Ho:** Consumers perceive that not all information found on the internet is valid and reliable, and using an intermediary in the travel purchasing process reduces the information risk associated with the transaction.

No statistical tests were performed on the data collected measuring the construct of Information Risk as it was deemed unreliable.

### 5.6.2 Hypothesis 2- Loss Aversion

**Ho:** Consumers purchasing a luxury travel product are less loss adverse when using an intermediary than when dealing with a supplier directly.

As the data collected was normally distributed, a Pearson's Correlation was performed between the component measuring loss aversion and the purchase method utilised by the respondent. Table 22 below, provides a summary of the results which indicate a significant correlation at the 0.01 level between the purchase method a respondent used when booking a luxury holiday in South Africa and the component measuring loss aversion. A correlation coefficient score of -0.452 indicates a moderate relationship between the

variables. Based on the interpretation summary provided in table 21, as component scores decrease so respondents move towards indirect booking methods or intermediaries to mitigate this perceived risk. The null hypothesis was therefore accepted implying that the construct of loss aversion does in fact have a statistically significant effect on a consumer's decision to utilise the services of an intermediary when booking a luxury tourist product in South Africa.

**Table 22: Pearson's correlation testing loss aversion**

<b>Correlations</b>			
		<b>Purchase method (Direct or Indirect)</b>	<b>Average score for financial &amp; experiential loss (Loss aversion component)</b>
<b>Purchase method (Direct or Indirect)</b>	<b>Pearson Correlation</b>	1	-.452**
	<b>Sig. (2-tailed)</b>		0.000
	<b>N</b>	126	122
<b>Average score for financial &amp; experiential loss (Loss Aversion component)</b>	<b>Pearson Correlation</b>	-.452**	1
	<b>Sig. (2-tailed)</b>	0.000	
	<b>N</b>	122	122

\*\* . Correlation is significant at the 0.01 level (2-tailed).

### 5.6.3 Hypothesis 3- Destination Naïveté

**Ho:** Destination naïve travellers are more inclined to use an intermediary to purchase a luxury travel product rather than booking with the supplier directly.

As the data collected was not normally distributed, a Spearman's rho correlation was performed between the two components measuring destination naïveté and the purchase method utilised by the respondent. Table 23 below provides a summary of the results which indicated a significant correlation at the 0.05 level between the purchase method a respondent used when booking a luxury holiday in South Africa and the second component measuring destination naïveté. The correlation coefficient of 0.217 however indicates a weak relationship between the variables. The first component measuring destination naïveté showed no significant statistical correlation with the purchase channel utilised to conclude the booking. This was established by inspecting the p-value score of 0.076 which is greater than 0.05 when testing at a 95% confidence interval. The results indicate that individuals with lower levels of subjective and objective knowledge seek the

services of an intermediary during the purchase process. Based on the results the null hypothesis for component 2 making up the component of destination naiveté was accepted whilst the null hypothesis for component 1 was rejected. The hypothesis stating destination naïve travellers are more inclined to use an intermediary to purchase a luxury travel product rather than booking with the supplier directly was therefore partially accepted for perceived prior and accessible knowledge.

**Table 23: Spearman’s rho correlation testing destination naiveté**

Correlations					
			Purchase method (Direct or Indirect)	Average score for first-hand knowledge (Destination Naievete component 1)	Average score for prior and accessible knowledge (Destination Naievete component 2)
Spearman's rho	Purchase method (Direct or Indirect)	Correlation Coefficient	1.000	-.159	.217
		Sig. (2-tailed)		0.076	0.015
		N	126	125	125
	Average score for first-hand knowledge (Destination Naievete	Correlation Coefficient	-.159	1.000	.178
		Sig. (2-tailed)	0.076		0.047
		N	125	125	124
	Average score for prior and accessible knowledge (Destination	Correlation Coefficient	.217	.178	1.000
		Sig. (2-tailed)	0.015	0.047	
		N	125	124	125

\*. Correlation is significant at the 0.05 level (2-tailed).

#### 5.6.4 Hypothesis 4- Transaction Cost

**Ho:** The amount of time involved in sourcing information and concluding a purchase directly with a supplier influences the distribution channel affluent consumers use when purchasing a luxury hotel/resort product.

As the data collected was not normally distributed, a Spearman’s rho Correlation was performed between the component measuring transaction cost and the purchase method utilised by the respondent. Table 24 provides a summary of the results which indicate a significant correlation at the 0.01 level between the purchase method a respondent used when booking a luxury holiday in South Africa and the component measuring transaction cost. The 0.506 correlation coefficient indicates a moderate relationship between the variables. The above results when interpreted in conjunction with the wording of the survey questions provided in table 21 resulted in the null hypothesis being rejected. Based on the above the null hypothesis has been accepted implying that the construct of transaction

cost does in fact have a statistically significant effect on the purchase channel used by an international consumer when booking a luxury tourist product in South Africa.

**Table 24: Spearman's rho correlation testing transaction cost**

Correlations				
			Purchase method (Direct or Indirect)	Average score for personal preferences and time constraints (Transaction Cost component)
Spearman's rho	Purchase method (Direct or Indirect)	Correlation Coefficient	1.000	.506**
		Sig. (2-tailed)		0.000
		N	126	126
	Average score for personal preferences and time constraints (Transaction Cost component)	Correlation Coefficient	.506**	1.000
		Sig. (2-tailed)	0.000	
		N	126	126

\*\* . Correlation is significant at the 0.01 level (2-tailed).

## Chapter 6: Discussion of research results

### 6.1 Introduction

The objective of this study was to identify the psychological factors and demographic characteristics that contribute towards using disintermediated channels to purchase luxury travel products in South Africa. The research was motivated by a need for suppliers to better understand the important pre-purchase considerations consumers make, with a view to adapting and tailoring their offering to better exploit this more lucrative direct channel. The results derived in Chapter 5 have been summarised in table 25 below, and forms the basis of the discussion and interpretation with reference to the overarching research questions as well as the context of the study outlined in chapters 1 and 2.

**Table 25: Summary of results from data analysis**

Hypothesis 1	Information Risk
<b>Statement</b>	(Ho): Consumers perceive that not all information found on the internet is valid and reliable, and using an intermediary in the travel purchasing process reduces the information risk associated with the transaction.
<b>Result</b>	No findings as data collected deemed unreliable
<b>Conclusion</b>	N/A
Hypothesis 2	Loss Aversion
<b>Statement</b>	(Ho): Consumers purchasing a luxury travel product are less loss adverse when using an intermediary than when dealing with a supplier directly.
<b>Components identified</b>	1
<b>Result</b>	Fail to reject null hypothesis
<b>Conclusion</b>	Utilising an intermediary during the purchase process reduces a consumer's loss aversion.
Hypothesis 3	Destination Naiveté
<b>Statement</b>	(Ho): Destination naïve travellers are more inclined to use an intermediary to purchase a luxury travel product rather than booking with the supplier directly.
<b>Components identified</b>	2
<b>Result component 1</b>	Reject null hypothesis
<b>Result component 2</b>	Fail to reject null hypothesis
<b>Result (Overall)</b>	Partially accept null hypothesis
<b>Conclusion</b>	Destination naïve travellers who do not believe they possess adequate knowledge of a destination are likely to utilise the services of an intermediary during the purchase process. First-hand knowledge does not however influence purchase channel choice.
Hypothesis 4	Transaction Cost
<b>Statement</b>	(Ho): The amount of time involved in sourcing information and concluding a purchase directly with a supplier influences which distribution channel affluent consumers use when purchasing a luxury hotel/resort product.
<b>Components identified</b>	1
<b>Result</b>	Reject null hypothesis
<b>Conclusion</b>	Time constraints are not seen as an important reason to utilise the services of an intermediary during the purchase process. Perceptions suggest intermediaries do not always save a consumer time during the purchase process.

## 6.2 Discussion of Hypothesis 1- Intermediaries reduce information risk

Hypothesis 1 aimed to determine whether international consumers perceive that information available on the internet is valid and reliable and as such would be confident utilising this information source to make a direct purchase of a luxury travel product in South Africa. The null hypothesis stated that consumers do not perceive all information is valid and reliable, thus influencing their decision to use the help of an intermediary during the purchase process. As described in table 25 no results were generated to confirm or reject this hypothesis as the data collected was deemed unreliable for statistical analysis purposes. The data gathered was however reviewed in an attempt to provide insight into why responses were deemed unreliable based on the type and nature of the questions asked.

The first observation, and an important influencing factor in the reliability of data gathered, centred on the construct of information. For a scale to be reliable all questions asked need to measure the same underlying construct (Pallant, 2007). Questions 1 to 5 were interrogated to identify the specific types of online information available to consumers and whether there are unique risk associations and perceptions based on the specific information type being utilised.

- Questions 1 and 2 addressed the concept of information risk from a holistic perspective without any reference to specific information source types. As such it was assumed that respondents answered these particular questions making reference to online information sources they deemed personally relevant and would therefore normally utilise when purchasing a luxury trip.
- Question 3 dealt specifically with perceptions about information provided by intermediaries and assessed its relevance and usefulness in relation to publically available information that can be sourced through online channels.
- Question 4 examined the concept of being able to source and rely on information for an intangible product through online sources.
- Question 5 explored a specific type of information available to consumers, namely third party reviews, and how respondents rely on this particular source of information to make purchase decisions for luxury travel purchases in South Africa.

Established research findings indicate a perception amongst consumers that information, whilst readily available, cannot always be relied upon and as a result the help of intermediaries is often sought during the purchase process. This behaviour stems from the difficulty non-experts have in identifying the sources of information that are reliable and can be trusted and utilised with confidence (Quintal et al., 2010; Yacouel & Fleischer, 2012).

Whilst acknowledging information risk as a factor that may affect purchase decisions and channels utilised, the studies reviewed did not elaborate on the types of information consumers utilise and rely on when completing the purchase of a travel product. (Xiang, Wang, Leary, & Fesenmaier, 2015) note that distinct types of information sources now exist and traditional online information channels are now supplemented with higher order information sources in the form of social media posts and third party reviews. The preference and subsequent utilisation of specific types of information sources is also believed to vary across generational gaps which could further impact the scale's reliability if a respondent perceived one particular source of information to be more useful or trustworthy (Kim, Xiang, & Fesenmaier, 2015; Xiang et al., 2015).

Therefore assessing the construct of information risk from a holistic perspective may have been too broad. More reliable results would have been achieved if the construct of information risk was assessed by understanding the relevant sources of information specific consumers utilise and trust when purchasing luxury travel products. A descriptive analysis separating responses provided to questions by age category was conducted with the results depicted in table 26 below.

The results for questions 1, 2 and 4 exhibited very little difference in median response scores indicating a close alignment of perceptions and subsequent behaviour amongst all consumer generations. Questions 3 and 5 did however exhibit clearly distinguishable perceptions amongst generations which may in turn have had an impact on purchase behaviour based on the availability and quality of the specific type of information being sought. Question 3 made specific reference to the superiority of information offered by intermediaries. Older generations scored lower on this question indicating that they believed the information obtained through intermediaries to be more accurate and reliable than what they would have been able to source themselves.

Question 5 looked at third party reviews as a specific source of information. This relatively recent information source is clearly favoured by younger individuals with far less reliance and importance being placed on this information source by older individuals. This is consistent with prior research findings which noted that a higher adoption of information sources by generations is based on the timing of when these sources first became prevalent (Kim et al., 2015). This behaviour can also be attributed to the fact that younger individuals lack first-hand travel experience and therefore rely on the perceptions of others to bridge this knowledge gap and increase their confidence prior to making a purchase decision (Quintal et al., 2010).

**Table 26: Mean scores for questions measuring information risk split by age group**

**Average score for each question split by age category**

Age Group	Number	Mean Q1	Mean Q2	Mean Q3	Mean Q4	Mean Q5
29 or under	10	2.20	1.80	2.40	3.10	1.80
30-39	17	2.18	2.12	2.47	2.71	1.65
40-49	34	2.32	2.26	2.41	3.00	2.32
50-59	32	2.31	2.06	2.03	2.81	2.41
60 and over	33	2.32	2.13	2.09	2.87	2.61

In conclusion, whilst the internet is by far the most frequently used information source when planning and purchasing travel products, there are numerous online information sources that are utilised and relied on to varying degrees when purchasing a luxury travel product based on demographic characteristics such as a consumer's age. This has important implications for suppliers who need to establish the types of information sources their specific target market relies on and utilises. Matching important online content to consumers' preferred information sources is imperative if suppliers hope to increase direct bookings.

### **6.3 Discussion of Hypothesis 2- Intermediaries reduce loss aversion**

Hypothesis 2 looked to explain if the construct of loss aversion, both financial and experiential, had an impact on a consumer's decision to utilise an intermediary when



purchasing a luxury travel product in South Africa. The results of the analysis detailed in table 18 indicated a medium negative correlation of -0.452 between the variables. The strength of the correlation has been assessed utilising Cohens interpretation guidelines (Pallant, 2007). Table 27 below provides a summarised version of the correlation interpretations. The analysis results detailed in table 25 failed to reject the null hypothesis indicating that consumers were less loss averse when utilising the services of an intermediary to purchase a luxury travel product in South Africa.

**Table 27: Correlation interpretation scores**

Correlation	r
<b>Small</b>	<b>0.1 to 0.29</b>
<b>Medium</b>	<b>0.3 to 0.49</b>
<b>Large</b>	<b>0.5 to 1.0</b>

The results of the statistical analysis support current literature that consumers are less loss averse when utilising the services of an intermediary to purchase a non-frequently purchased hedonic product (Nicolau, 2012; Nicolau, 2013). These findings clearly indicated that loss averse consumers believe intermediaries provide some sort of value added benefit thus mitigating, or at least significantly reducing, the risk that the consumer will be disappointed with the financial or experiential element of the product purchased.

One of the underlying justifications for this behaviour is attributed to the heterogeneity of tourism products which in turn create perceptions of uncertainty due to inevitable variability in how the product is delivered and perceived (Nicolau, 2013). Consumers also assess the quality of a service by applying a unique set of expectations and intrinsic motivations. Therefore the reference point for what constitutes a good experience and value for money differs from one individual to the next. The higher cost and typically complex choices, usually associated with the purchase of a luxury travel product increase the product's perceived risk (Lin et al., 2009). This is in line with the study in question given the fact that that only luxury products purchased by international consumers were being assessed.

The statistical findings have important implications for suppliers wishing to maximise their direct booking potential. Firstly it would be of great benefit to suppliers to try and understand what unique value intermediaries are adding and thus determine whether this

can this be replicated in an economically feasible way utilising available resources. Prior academic studies which evaluated the construct of loss aversion raise other insights into how suppliers can reduce loss aversion perceptions amongst consumers which may contribute towards a shift in purchase channel behaviour.

Before potential measures to decrease loss aversion can be discussed it is important to understand how the construct of loss aversion influences consumer behaviour. Loss aversion implies that consumers show an increased sensitivity towards losses, relative to their reference point, rather than acquiring gains (Nicolau, 2013). These reference points can be organisation or industry specific and comprise both pricing and experiential elements. Therefore the setting and manipulation of pricing policies and experiential features needs to be carefully considered and effectively managed to ensure a consumers reference points are not negatively impacted.

The first insight explores loss aversion through pricing policy. Nicolau, (2013) notes the effect that altering prices has on the construct of loss aversion. Whilst reducing prices in the short run may reduce a consumer's loss aversion, the new reference point created through the adjusted pricing structure may have a negative impact on a consumer's loss aversion when prices are increased to normal levels at some stage in the future. Whilst sales may stimulate demand in the short term, the longer term impacts of constant price fluctuations are often not considered. For suppliers being able to predict the effect of price manipulations on consumer behaviour could play an important role in reducing overall loss aversion leading to an increase in direct bookings.

Casaló, Flavián, Guinalú, & Ekinci, (2015) discuss how enhancing user reviews can also influence a consumer's loss aversion. Results from the study indicated that high risk-averse travellers perceive negative reviews to be more useful than positive reviews. In the case of positive reviews, consumers place an increased emphasis on product pictures, expert postings and identifiable brand names. Suppliers should therefore encourage guests to post online reviews illustrating their product through pictures whilst also exploring the opportunity to utilise the services of experts to enhance their attractiveness and reduce perceived risk.

The construct of loss aversion plays an important part in a consumer's decision to utilise and intermediary or make a reservation at a luxury hotel directly. Whilst eliminating loss aversion is impossible there are feasible options available to suppliers to reduce consumer's loss aversion and increase direct bookings.

#### **6.4 Discussion of Hypothesis 3- Destination Naiveté drives intermediary usage**

Hypothesis 3 looked at the construct of destination naiveté and assessed its influence over the type of purchase channels consumers are likely to utilise when making a luxury hotel booking in South Africa. The results of the analysis are detailed in table 23 and interpreted in table 25. Two separate components, namely first-hand knowledge derived through prior visitations and extensive prior travel experience, and perceived and accessible knowledge were identified from the factor analysis. The results of the correlation analysis indicated a weak or small positive correlation of 0.217 between component 2 measuring prior and accessible knowledge and a consumer's decision to make use of an intermediary in the booking process. The findings therefore failed to reject the null hypothesis. No significant correlation was however identified for component 1 measuring first-hand knowledge at a significance level of 0.05 and therefore the null hypothesis was rejected. The combined hypothesis testing destination naiveté from a holistic perspective was therefore partially supported.

The results of the statistical analysis partially confirmed the findings of Grønflaten, (2009) & Sharifpour et al., (2013) who noted that prior knowledge has a significant influence on purchase channel choice. The findings do however raise questions about the importance and influence prior visitations have on knowledge creation and the corresponding effect on purchase channel choice. The findings of the study contradict claims made by Choi et al., (2013) who determined that visiting experience has a direct correlation to the dependence placed on intermediaries for information.

Whilst prior visits assisted with the reduction of certain risk elements, they appeared to have little effect on the pertinent risk elements that influence a consumer's purchase channel choice. This behaviour appears to have been influenced by the fact that consumers with previous visitation experience still place significant emphasis on reducing

both financial and service quality risk (Fuchs & Reichel, 2011; Sharifpour et al., 2013). These risk elements are not easily mitigated through prior visits as the heterogeneous nature of the product being purchased means information gathered from prior visits cannot be easily transferred and utilised when purchasing other luxury travel products, even when they are located in the same geographic region. Knowledge by itself is seen as irrelevant if it is unable to mitigate the specific risk being faced by the consumer.

The results of the study also highlighted the importance consumers placed on different forms of knowledge during the planning and purchase process. Whilst prior objective knowledge plays an important role in determining the extent of a consumer's knowledge search, the determination of information sources, subjective and not objective knowledge, appears to have the greatest influence on tourist risk perceptions which ultimately guide purchase behaviour and booking channels utilised (Sharifpour et al., 2013). It also needs to be noted that objective knowledge can be acquired through sources other than prior visitations and therefore the knowledge created through prior visits appears limited when it comes to making future purchase decisions.

The relevance and importance of subjective knowledge in the purchasing decision process should not be lost to suppliers. Whilst objective knowledge is difficult to produce as it relates to facts or a general consensus developed over time, subjective knowledge desired by consumers can be produced if their needs are correctly interpreted and translated into useful information. For suppliers being able to identify, analyse and distribute specific sources of information that appeal to their target population will have a material impact on the type of channels utilised by consumers when making a purchase. As long as consumers believe they have adequate in-depth knowledge, even if this is a self-assessed perception, they are more likely to utilise direct channels when purchasing luxury travel products.

Whilst this is positive news for suppliers looking to increase direct bookings, luxury hotels and lodges need to be cognisant of the fact that they are not the only distribution channel partners that utilise information to attract consumers. An area of competitive advantage could just as easily become a crippling weakness if information shared is not easily found or interpreted. As the complexity associated with sourcing and interpreting information

increases so consumers shift their source of focus towards intermediaries (Grønflaten, 2009).

In conclusion, the fact that an individual has not travelled to South Africa appeared to have a small impact on the purchase channel they utilised when deciding to purchase a luxury travel product. Subjective knowledge appears to have the greatest influence on purchase behaviour and should be leveraged by suppliers if they hope to increase direct bookings.

### **6.5 Discussion of Hypothesis 4- Time to search for information influences distribution channel choice**

Hypothesis 4 looked to explain if the construct of transaction cost, specifically the time and effort it takes to source information about a destination and conclude the purchase, influences an affluent traveller's behaviour to utilise an intermediary in the purchase process. The results of the analysis are detailed in table 23 and summarised in table 25. A large or strong positive correlation of 0.506 was reported resulting in the null hypothesis being rejected. This indicated that consumers did not believe that:

- Utilising the services of an intermediary saves the respondent time as direct purchases can be concluded almost immediately via electronic platforms.
- Utilising the services of an intermediary guarantees that an organised luxury trip is better suited to a respondent's tastes and experiential preferences.

From the above it becomes evident that whilst there are respondents who still value the services of intermediaries whom they perceive as experts and are able to put together tailored offerings to suit their preferences and save them time, there was a general consensus amongst respondents that using an intermediary does not save them time and guarantee a better product experience, more suited to their specific tastes and preferences than they would be able to source themselves. The results of the study should be welcomed by suppliers looking to increase direct bookings as there is an opportunity to be exploited by providing the information potential consumers desire to make informed decisions without the help of an intermediary.

The findings of the study contradict current literature which states that higher income consumers exhibit a tendency towards saving time during the purchase process and as such would utilise the services of an intermediary to conclude the transaction on their behalf (Punj, 2011; Terblanche, 2015). Kracht & Wang, (2010) go further to contextualise the concept of time saving for an experiential purchase by stating that the cost of time and effort required to wade through complex products and weigh up alternative destination choices such as those commonly experienced in the hospitality industry encourage consumers to interact with intermediaries whom they perceive possess expert knowledge and as a result can not only save them time, but add value to the experience.

Assessing the results of the study to current literature, one of the reasons for the contradictory results could be attributed to the specific nature of the product being purchased. A luxury international trip can be classified as a high-involvement non-frequently purchased product that elicits a heightened sense of personal relevance for the consumer. The personal connection between the consumer and the service is therefore significantly higher than it would normally be for other purchases even those of a similar value, which elicits a reaction amongst consumers to be more actively involved than they normally would during the purchase process (Jun & Vogt, 2013; Nicolau, 2013). Prior studies did not look at the specific nature of the product being purchased or if they did, they looked at hospitality from a general perspective, ignoring the financial outlay and consumer motivations involved in the purchase decision.

Recent studies have also identified a definite shift in consumer behaviour towards experiential consumption. Individuals place more emphasis on travel purchases from which they derive an increased sense of satisfaction rather than on material purchases. Memories are now regarded as the ultimate souvenirs of time spent with loved ones (Fuchs, Chen, & Pizam, 2015).

The concept of time saving also needs to be assessed with reference to the individual purchasing the product. Work, family and other commitments all play an influential role in the amount of time consumers still have available to dedicate to items such as purchasing a luxury hospitality product. Individuals' priorities also change as they move between phases in their lifecycle. One would expect older individuals who have either retired or are no longer dedicating a significant amount of their time to work or family related tasks to not

value time savings as highly as individuals who are currently employed in high-powered stressful jobs or have young families to take care of. Punj, (2011) confirmed this assessment by noting that demographic influences such as generational age act as moderating influences in a consumer’s decision to utilise online purchase channels. Therefore the average score for the component measuring transaction cost was assessed according to an individual’s age category to assess the claim that age acts as a moderator for transaction costs. Table 28 shows a general trend that the older the individual, the lower the importance they placed on time as a factor when deciding to utilise the services of an intermediary when concluding a luxury travel purchase. These findings are important based on the demographic profile of respondents who participated in the study.

**Table 28: Average score for transaction cost construct split by age**

**Average score for component split by age category**

Age Group	Number	Mean Score
29 or under	10	2.90
30-39	17	3.03
40-49	34	3.08
50-59	32	3.53
60 and over	33	3.25

Based on the discussion above, not only does the construct of transaction cost not appear to impact a supplier’s ability to encourage consumers to utilise direct booking channels but providing consumers with interactive and high-involvement sources of information could potentially act as an area of competitive advantage if correctly leveraged.

## 6.6 Summary

Chapter six reviewed the key findings of the study and demonstrated that the channel booking method utilised is influenced by a number of psychological and demographic factors. Table 29 below provides a summary of the results. The research objectives have been met as the study adds depth to prior literature on how the psychological factors of loss aversion, destination naiveté and transaction cost impact the utilisation of the services of an intermediary during the purchase of a luxury hospitality booking in South Africa.

**Table 29: Summary of research results**

Hypothesis	Summary	Results
1	Utilising an intermediary in the purchase process reduces information risk	No results
2	Consumers loss aversion decreases when utilising an intermediary to purchase a luxury travel product	Supported
3	Destination naïve travellers are more inclined to use an intermediary to purchase a luxury travel product	Partially supported
4	Transaction cost, specifically the time and effort it takes to source information, influences an affluent traveller's behaviour to use an intermediary	Not Supported

The following chapter presents a summary of the major findings and identifies recommendations for both luxury suppliers and academics as well as a discussion on the limitations identified during the study.



## **Chapter 7: Conclusion and recommendations**

### **7.1 Introduction**

The results of this study have helped develop a deeper understanding of consumer behaviour with regard to disintermediation for luxury travel purchases in the South African market. A number of psychological and demographic factors that play a fundamental role in a consumer's decision making process to utilise the services of an intermediary have been identified. Whilst intermediaries will continue to play a crucial role in the tourism value chain the findings of the study clearly demonstrate that there are opportunities available to suppliers to increase direct bookings and subsequently improve profitability whilst at the same time reducing their reliance on third parties.

The successful adoption of a strategy focused on increasing direct bookings hinges on a supplier's ability to gather, analyse, interpret and translate information into marketing strategies that successfully address the risk perceptions consumers have with regard to utilising direct channels to purchase luxury travel products. The formulation of a successful and adoption thereof would also provide suppliers with the competitive advantage they need to survive and prosper in an increasingly complex and competitive environment.

The era of producing products and services without understanding the intrinsic desires and needs of consumers has passed. Organisations offering services need to ensure their value offering appeals to, and meets the needs of their target market beginning at the pre-purchase phase when knowledge is sought and opinions formulated.

### **7.2 Main findings**

Whilst there is a wealth of online information available to consumers, the study indicated that there are clearly defined mediums or categories of information that consumers favour and place increased reliance on when making a purchase decision. These channels are primarily defined and segregated by generational characteristics. Higher order information sources such as third party reviews and social media have emerged as important information sources for younger individuals whilst older generations are still heavily reliant on traditional information sources, including information distributed by intermediaries. For suppliers who hope to increase direct bookings, being able to provide content rich and

personally relevant information using information sources that cater to the preferences and evolving needs of their specific target market is a necessity (Xiang et al., 2015). Knowledge by itself is seen as irrelevant if it is unable to mitigate the specific risk being faced by the consumer.

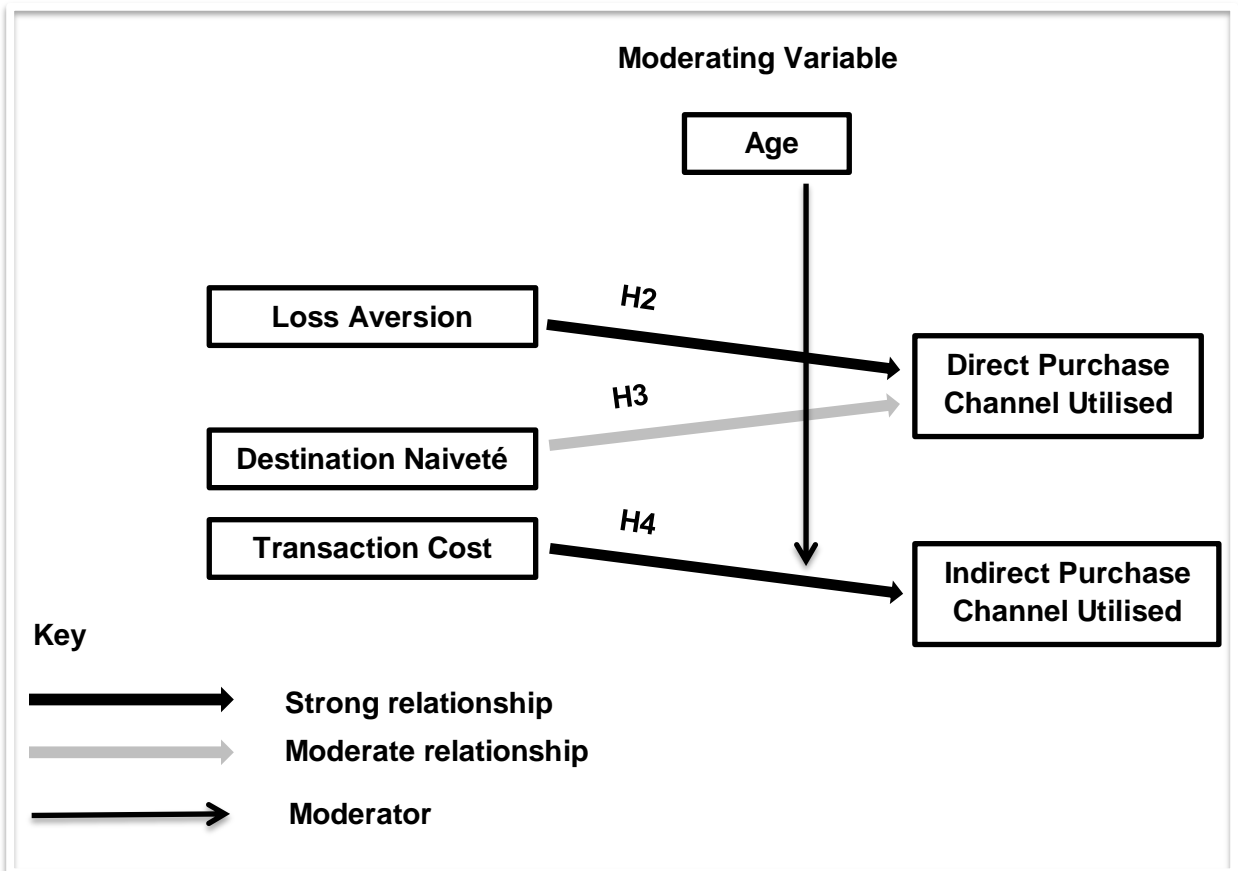
Loss aversion is one of the most influential psychological factors affecting the booking channel which consumers utilise when purchasing a luxury travel product. The heterogeneity of an experiential product coupled with consumers fluctuating reference points makes it very difficult for suppliers to convince potential customers that their specific offering will definitely live up to their expectations and desires (Nicolau, 2013). Unstable pricing policies are shown to have a detrimental effect on a consumer's reference point and price fluctuations, and even if they are promotional, they should be carefully considered in conjunction with the suppliers' booking channel strategy prior to implementation. High risk-averse travellers regard user reviews, both positive and negative, as important sources of information in reducing both financial and experiential loss.

Destination naiveté does not appear to have a significant influence on the purchase channel consumers are likely to utilise when purchasing a luxury hospitality product in South Africa. Contrary to current literature a lack of first-hand knowledge and prior travel experience show no significant correlation to utilising the services of an intermediary to bridge this perceived knowledge gap. This behaviour was once again attributed to the heterogeneity of the product being purchased, with prior visitation experience unlikely to alleviate the financial and service quality risk concerns of consumers. Rather than first-hand experience subjective knowledge appears to play a more influential role in purchase behaviour (Sharifpour et al., 2013).

Contrary to prior research findings, transaction cost associated with time saving had no bearing on a consumer's decision to utilise the services of an intermediary in the purchase process. In fact, as luxury consumers shift towards more experiential consumption, the personal connection and satisfaction they derive drives them to become more actively involved in the purchase process (Jun & Vogt, 2013).

The theoretical model constructed from prior literature and detailed in chapter 3 has been adapted to provide a graphic representation of the major findings and influencing factors identified from the research conducted. Whilst increases in loss aversion and destination naiveté influenced a consumer’s decision to utilise the services of an intermediary, many consumers are not averse to spending time searching for and purchasing luxury travel products.

**Figure 14: Graphical representation of relationships based on statistical findings**



(Authors own)

### 7.3 Organisation implications and recommendations

An organisation’s long-term success is dependent on its ability to understand its target market and provide a service that not only meets the needs of consumers, but does so in a superior way to their competitors (Chakravarthi & Gopal, 2012; Ku et al., 2011). Based on the findings from the study a set of recommendations grouped under the broad headings of information, pricing and product enhancements have been identified that may assist suppliers

to increase their total number of direct bookings, thus improving revenue and reducing their reliance on intermediaries to remain sustainable.

### **7.3.1 Recommendations targeting information**

From the research it was noted that suppliers have the opportunity to influence purchasing behaviours and better exploit the more lucrative direct market through the control, supply and placement of information distributed to consumers (Sharifpour et al., 2013). Information sources can no longer be viewed as holistic and interchangeable. Based on the supplier's target demographic market the specific information channels mediums that should be used include:

- Higher order information channels such as social media and third party reviews for consumers younger than 39.
- Traditional information channels for consumers older than 39

Suppliers should ensure they set up a visible platform for online reviews and encourage guests to post feedback on their experiences. Negative reviews should not be discouraged but utilised as an opportunity to address areas of concern and reduce loss aversion amongst risk-averse consumers. Suppliers should also leverage off the influence which product experts have by inviting them to experience their product in exchange for writing reviews which have been identified as important and trusted sources of information amongst consumers (Casaló et al., 2015).

Whatever information medium is selected, suppliers should ensure that all pertinent information which consumers would readily use when deciding on a booking channel is easily accessible and interpreted. Links to comprehensive information that increase consumer engagement should be created. This is particularly relevant when targeting older consumers who value the potential time savings that can be achieved through the use of intermediaries far less than younger generations do. Finally, suppliers should be aware that information sources and usage behaviour will continue to evolve and have an important impact on the way consumers make purchase channel decisions. Suppliers need to ensure they are aware of these dynamics and make the necessary changes to

both content and the sources used to distribute this content to retain their competitive advantage (Xiang et al., 2015).

### **7.3.2 Recommendations around pricing policy**

An organisation's pricing policy has a material impact on a consumer's loss aversion. Whilst pricing reductions through promotions may temporarily reduce a consumer's financial risk perception, subsequent price increases, even if this is simply a return to the products' original price point prior to the promotion, have shown to increase loss aversion (Nicolau, 2013). Organisations should implement stable pricing policies that are competitive in comparison to similar product offerings. Even affluent consumers consider the value of a product in relation to its purchase price and with a wealth of information now available, competitive quotes are easily accessed. Luxury suppliers should as far as possible refrain from entering into price wars with competitors and rather utilise their overall superior value proposition to attract consumers.

### **7.3.3 Recommendations on product enhancements**

Organisations should look at ways of reducing the financial risk component that negatively impacts a consumer's loss aversion. The economic feasibility of insuring consumers who are not able to travel should be assessed against the potential increase generated through increased direct bookings. An internal concierge service offering personalised product information and booking assistance is another potential solution for suppliers looking to increase direct bookings. Being able to provide tailored assistance according to an individual's personal requirements will go a long way to bridging the perceived expertise gap between distribution experts such as travel agents and tour operators and suppliers.

## **7.4 Limitations of the study**

Limitations of the study were identified during both the methodology and data analysis process. The limitations described in chapter 4 have been replicated in a summarised format below.

#### **7.4.1 Methodological Limitations**

- As the size and spread of the population under study was not known, a non-probability sample method had to be adopted. It was also impossible to determine the representation needed to infer the results achieved to the population.
- Data collection was limited to one organisation comprising four luxury lodges in South Africa. The fact that only one company was used increased the potential bias that may have arisen for all constructs being reviewed. A consumer's purchase intentions are influenced by the quality, accessibility and ease of use of a supplier's website or other direct booking channels, the purchase price of the product as well as the destination's brand image. These factors differ significantly between suppliers and their product offerings. The fact that Sabi Sabi Private Game Reserve appears towards the top of search engine results when looking for luxury lodges in South Africa and is located in the world renowned Sabi Sands Private Game Reserve, make its risk association vastly different from a smaller boutique establishment that may not be as well-known or accessible on general product searches.
- A number of other potential biases were identified. In certain instances where English was not spoken as a first language or at all, literacy bias was an issue. The non-compulsory questionnaire issued to guests also created an element of non-response bias as individuals that fell into the population declined to complete the questionnaire.

#### **7.4.2 Data Analysis Limitations:**

- The population sample was skewed in terms of age and nationality demographics whilst purchases made through direct booking sources only comprised 23% of total responses received. Age appeared to be an important moderator variable between a number of the constructs being researched and a consumer's booking behaviour.
- The data measuring the construct of information risk was unreliable and as a result no statistical analysis could be performed. The relationship between information risk and the purchase channel utilised to book a luxury travel product in South Africa could therefore not be assessed. The reliability score for the items measuring destination naiveté was also questionable.
- Whilst the research provides valuable insights into the psychological factors affecting a consumer's purchase channel choice it did not account for other potential influencing

factors such as trip complexity, length of stay and size of travel group. This has been further elaborated on in suggestions for future research.

## 7.5 Suggestions for future research

The research conducted is by no means an exhaustive list of the psychological factors that could influence a consumer's purchase channel behaviour. Factors such as recognition, product uniqueness as well as a consumer's prior attitude towards a specific destination are other examples of factors that may influence the purchase decision process. Suggestions for areas of future research that would not only compliment, but also add value to better understand how consumers think and behave when purchasing a luxury travel product in South Africa include the following:

The study could be expanded by looking at a larger sample size, collecting data over an extended period and utilising more than one luxury destination in the data gathering process. Justifications for these suggestions include:

- The construct of destination naiveté could not only be explored from a country perspective but could be further broken down to explore specific regions. Popular tourist destinations usually carry greater media exposure and are also able to rely on destination management organisations to further promote the region's product offerings. This has a direct influence on the amount and type of information available to consumers which may in turn affect their purchase channel behaviour.
- The specific time of the year when the study was conducted over appeared to impact the demographic representation of the population. European and North American summer holidays took place during the data collection period and as a result respondents were skewed in favour of these two regions. Differences in purchase behaviours based on a respondent's geographic location were therefore unable to be tested. Cultural behaviours have shown to influence information seeking and travel behaviours which may assist marketers in further refining their promotion strategies to maximise direct bookings (Kambele, Li, & Zhou, 2015).
- Incorporating more than one luxury destination would allow for multiple price points to be tested. This may be particularly useful in providing more in-depth information

around the construct of loss aversion, specifically loss aversion relating to the financial outlay involved in the purchase process.

- The study could also be extended to determine if other non-psychological considerations such as trip complexity, total length of stay and the size of travel party may also be important influencing factors in determining the purchase channel utilised by consumers when purchasing a luxury travel product.
- A longitudinal study on consumer purchasing behaviour may yield valuable findings. Information sources will continue to evolve and play an important role in the purchase decision process (Xiang et al., 2015). Important shifts such as the advent of social media and third party reviews have proved to be fundamental drivers of purchase behaviour for certain segments of the population. The evolution of new information sources and shifts in the reliance on current sources of information are expected to become more and more frequent. This coupled with the fact that younger consumers will continue to utilise current technical knowledge will reshape the way purchase decisions are made, especially when analysing differences in generations.
- The construct of loss aversion was one of the primary psychological influencers of purchase behaviour for luxury tourism products in South Africa. Loss aversion comprised two unique elements, namely financial and experiential loss. Future research could be conducted to analyse each component of loss aversion separately as managerial implications to reduce a consumer's loss aversion differ considerably for each element. Furthermore, the current study could be replicated in other geographic locations to assess how different geographic destinations affect the psychological constructs studied
- Finally, a detailed study could be conducted to understand how influential different types of information sources are to different generations during the purchase process. Reliable and trustworthy information plays a fundamental role in determining a consumer's risk perceptions, but the exact extent of how each of these channels are utilised, is so far unknown.



## 7.6 Conclusion

This research aimed to identify the psychological factors and demographic characteristics that influence consumer behaviour and contribute towards the utilisation of disintermediated channels to purchase luxury travel products in South Africa. The findings of this study contribute to and extend on previous studies of consumer purchase behaviour. Apart from the construct of information risk which could not be tested due to data reliability issues, the objectives of the study were achieved. Whilst it is impossible to predict the intrinsic motivations and risk perceptions of each consumer, the results of the study identified the importance the constructs of loss aversion, destination naiveté and transaction cost have on purchase channel choice.

In addition to its primary objectives, the study also unpacked the construct of information risk by identifying the types and sources of information on which different generational groups are more likely to rely and utilise when concluding the purchase of a luxury travel product.

Tourist's decision making processes will continue to evolve as information technology changes. By identifying and being able to better understand the factors that influence a consumer's purchase behaviour, suppliers have the opportunity to develop marketing strategies to not only increase their exposure, but also affect the utilisation of disintermediated channels when luxury travel products are purchased in South Africa.

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## Appendix A: Research questionnaire

Objective: The objective of this questionnaire is to try and understand international consumer's behaviour towards disintermediation in the luxury travel industry in South Africa. You are kindly requested to complete this questionnaire to improve our understanding of variables that may impact consumer purchase behaviour. The questionnaire should not take longer than 10 minutes to complete. Your participation in this survey is voluntary and you can withdraw at any time without penalty. All data obtained will be kept confidential. By completing this survey you have indicated that you are happy to voluntarily participate in this survey. Should you have any concerns please do not hesitate either myself or my research supervisor. Our details are provided below.

Researcher:

Gareth Greensill

Research Supervisor:

Samantha Swanepoel

### Instructions

- Please respond to all questions
- Indicate your response by placing a cross in the appropriate box

**Questions collecting information on demographics and actual purchase methods used.**

1. What is your age group?

- 29 or under
- 30-39
- 40-49
- 50-59
- 60 or over

2. What is your gender?

- Male
- Female

3. In which country do you normally live?

Please document your country of primary residence: \_\_\_\_\_

4. How would you describe your travel party on this trip?

- Individual traveller
- Traveling with spouse or partner
- Traveling with family
- Travelling with work colleagues
- Travelling as part of a tour group

5. What is your main purpose of this trip to South Africa?

- Leisure
- Business

6. Is this your first trip to South Africa?

- Yes
- No

7. What distribution channel did you use to book this trip?

- I interacted directly with the hotel/lodge
- Face-to-face travel agent
- Online travel agent
- Tour operator
- Web application (ie: booking.com)

Note: When answering the questions below please do so from the perspective of the luxury hotel/lodging industry in South Africa. Example: All data found on the internet is accurate and reliable should be interpreted as all data found on the internet relating to luxury hotels/lodges in South Africa is accurate and reliable.

		Strongly Agree	Agree	Neither	Disagree	Strongly Disagree
<b>Questions on Information risk:</b>						
1	All data found on the internet for luxury hotels and resorts in South Africa is accurate and reliable.					
2	I am easily able to find the specific information I desire off the internet when searching for luxury hotels/resorts in South Africa.					
3	Third parties such as travel agents and tour operators are able to provide me with information that is more accurate and reliable than I would be able to source myself.					
4	The intangibility and experiential nature of a luxury travel product makes it difficult to source the information I desire through online channels.					
5	Third party reviews on destinations and accommodation options provide a reliable source of online information I would readily use to make a purchase decision.					
		Strongly Agree	Agree	Neither	Disagree	Strongly Disagree
<b>Questions on Loss Aversion:</b>						
6	Using an intermediary such as a travel agent or tour operator reduces the chances I will be disappointed due to a hotel/lodge not meeting my specific tastes and expectations.					
7	The financial outlay involved in purchasing a product from a luxury hotel/lodge influences my decision to make use of an intermediary such as a travel agent or tour operator.					
8	My current financial status has decreased my loss aversion towards purchasing a luxury hotel/lodge that may not meet my expectations and provide me with the experience I desire.					

9	I am unwilling to risk a poor experience by purchasing a luxury hotel/lodge without the help of third parties such travel agents and tour operators.					
		<b>Strongly Agree</b>	<b>Agree</b>	<b>Neither</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
	<b>Questions on Destination naiveté:</b>					
10	The knowledge I have of a destination impacts the whether I will use an intermediary such as a travel agent or tour operator during the purchase process.					
11	The more I travel, the more comfortable I feel to purchase luxury travel products directly from suppliers without going through an intermediary.					
12	Prior to this trip I believe I had an in-depth knowledge of the South African hospitality industry and its luxury product offerings.					
13	The internet is an adequate source of information to get all the knowledge I need about a destination and its luxury hotel offerings.					
		<b>Strongly Agree</b>	<b>Agree</b>	<b>Neither</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
	<b>Questions on transaction costs:</b>					
14	My time is very important to me and as such I prefer to use the services of an intermediary such as a travel agent or tour operator when planning and purchasing a luxury trip.					
15	Using an intermediary such as a travel agent or tour operator does not save time in the purchasing process as direct bookings can be performed almost instantaneously.					
16	I believe that I am able to put together a luxury trip that is better suited towards my tastes and experiential preferences than an intermediary such as a travel agent or tour operator would be able to offer me.					
17	Money is not an influencing factor in my decision to either use an intermediary such as a travel agent or tour operator or book a luxury hotel product directly.					

## Appendix B: Coded answers for questions asked

Statement	Strongly Agree	Agree	Neither	Disagree	Strongly Disagree
All data found on the internet for luxury hotels and resorts in South Africa is accurate and reliable	1	2	3	4	5
I am easily able to find the specific information I desire off the internet when searching for luxury resorts/hotels in South Africa	1	2	3	4	5
Third parties such as travel agents and tour operators are able to provide me with information that is more accurate and reliable than I would be able to source myself.	1	2	3	4	5
The intangibility and experiential nature of a luxury travel product makes it difficult to source the information I desire through online channels.	1	2	3	4	5
Third party reviews on destinations and accommodation options provide a reliable source of online information I would readily use to make a purchase decision.	1	2	3	4	5
Using an intermediary such as a travel agent or tour operator reduces the chances I will be disappointed due to a hotel/lodge not meeting my specific tastes and expectations.	1	2	3	4	5
The financial outlay involved in purchasing a product from a luxury hotel/lodge influences my decision to make use of an intermediary such as a travel agent or tour operator.	1	2	3	4	5
My current financial status has decreased my loss aversion towards purchasing a luxury hotel/lodge that may not meet my expectations and provide me with the experience I desire.	1	2	3	4	5
I am unwilling to risk a potential poor experience by purchasing a luxury hotel/lodge without the help of third parties such travel agents and tour operators.	1	2	3	4	5
The knowledge I have of a destination impacts the whether I will use an intermediary such as a travel agent or tour operator during the purchase process.	1	2	3	4	5
The more I travel, the more comfortable I feel to purchase luxury travel products directly from suppliers without going through an intermediary.	1	2	3	4	5
Prior to this trip I believe I had an in-depth knowledge of the South African hospitality industry and its luxury product offerings.	1	2	3	4	5
The internet is an adequate source of information to get all the knowledge I need about a destination and its luxury hotel offerings.	1	2	3	4	5
Time constraints in my daily life make using an intermediary such as a travel agent or tour operator necessary when purchasing a luxury travel product.	5	4	3	2	1
Using an intermediary such as a travel agent or tour operator does not save time in the purchasing process as direct bookings can be performed almost instantaneously.	1	2	3	4	5

<b>I believe that I am able to put together a luxury trip that is better suited towards my tastes and experiential preferences than an intermediary such as a travel agent or tour operator would be able to offer me.</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Money is not an influencing factor in my decision to either use an intermediary such as a travel agent or tour operator or book a luxury hotel product directly.</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>